GREAT-WEST LIFE

1997 ANNUAL REPORT

THE
Great-West Life
ASSURANCE COMPANY

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ASSURANCE COMPANY

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FINANCIAL HIGHLIGHTS

(in millions of dollars except per common share amounts)

	1997	1996	% Change
FOR THE YEAR			
Total premiums including risk premiums, self-funded premium equivalents and segregated fund deposits			
Life insurance	$ 1,850	$ 1,806	2%
Annuities	4,638	3,293	41%
Health insurance	4,866	4,506	8%
Reinsurance	904	–	–
Property & casualty insurance	7	–	–
Total	12,265	9,605	28%
Fee and other income	705	567	24%
Net income before provision for integration costs			
– attributable to participating policyholders	29	13	123%
– attributable to shareholders	359	304	18%
Net income			
– attributable to participating policyholders	(18)	13	(238%)
– attributable to shareholders	264	304	(13%)
Return on shareholders' equity before provision for integration costs	18.7%	17.9%	
Return on shareholders' equity	13.2%	17.9%	
PER COMMON SHARE			
Net earnings before provision for integration costs	$ 158.63	$ 135.62	17%
Net earnings	112.23	135.62	(17%)
Dividends paid	66.40	54.40	22%
Book value	1,117.76	801.02	40%
AT DECEMBER 31			
Life insurance in force (face amount)	$ 412,104	$ 251,743	64%
Annuities in force (funds held)	39,032	24,505	59%
Health insurance in force (annualized premiums)	6,594	5,092	29%
General funds assets	52,069	27,999	86%
Segregated funds assets	22,162	12,342	80%
Other assets under administration	1,286	–	–
Total assets under administration	75,517	40,341	87%
Capital stock and surplus	4,758	2,528	88%

The Great-West Life Assurance Company is an international corporation, serving the financial security needs of more than 10 million individuals in Canada and the United States. Great-West and its subsidiaries, London Life Insurance Company and Great-West Life & Annuity Insurance Company, have more than $75 billion in assets under administration, and over $455 billion of life and health insurance and annuities in force.

THE GREAT-WEST LIFE ASSURANCE COMPANY

Great-West is the leading life and health insurer in the Canadian market. Founded in Winnipeg in 1891, the Company offers a wide range of life insurance, retirement savings and investment products for individuals, families, businesses and organizations. The Company markets its products in Canada through a network of Great-West representatives, brokers and through marketing agreements with other financial institutions.

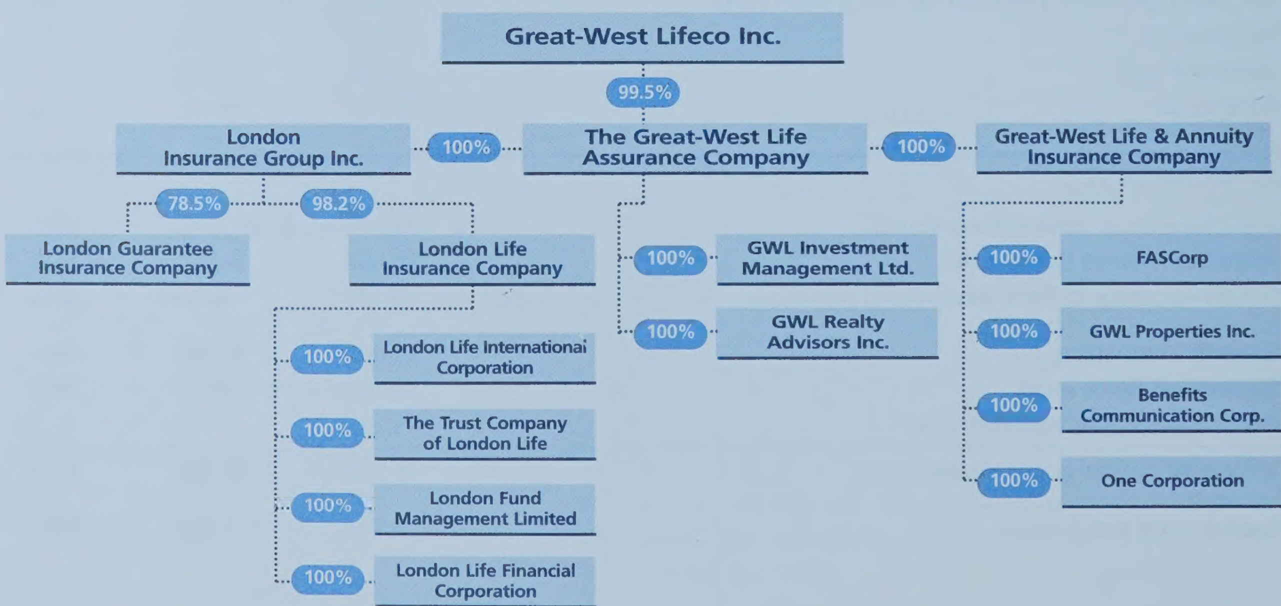
LONDON LIFE INSURANCE COMPANY

Founded in 1874, in London, Ontario, London Life is the leading provider of life insurance to individuals in Canada, under its widely recognized Freedom 55 brand. London Life markets life insurance, disability insurance and retirement savings and investment products in Canada through its sales force. In addition to its domestic operations, the Company is a supplier of reinsurance in the United States and Europe, and is a 39% participant in a joint venture life insurance company, Shin Fu, in Taiwan.

Great-West acquired London Life in November 1997.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Great-West has been serving the U.S. market for more than 90 years. Its United States business is conducted primarily through Great-West Life & Annuity, a leader in providing employee benefits for small to mid-sized corporations and in meeting the retirement income needs of employees in the public/non-profit sector. The Company markets its products through brokers and group representatives, and through marketing agreements with other financial institutions.



During 1997, Great-West, already well recognized for financial strength and leading market position, significantly added to its capabilities by acquiring the London Insurance Group (LIG), including its principal subsidiary, London Life Insurance Company.

CANADA: BUILDING ON STRENGTH

The acquisition gives Great-West a stronger, more balanced North American operation. It unites London Life's strength as the leading provider of individual life insurance in Canada, with Great-West's strength as a leader in group benefits, disability insurance and investment funds. It presents a unique opportunity to build on these strengths, increase the companies' abilities to serve more customers and become more competitive. The purchase also provides access to European reinsurance markets, where London Life has developed successful businesses.

In creating the leading Canadian life insurer, Great-West in conjunction with Investors Group, now has access to the largest financial services sales force in Canada, with more than 7,000 sales representatives serving the needs of Canadians. The business volumes produced by these diversified distribution channels allow Great-West to offer sophisticated financial products at a lower cost, and still provide the personalized, professional advice and service that Canadians want and expect. This also supports Great-West's mission to become the leading advice provider of financial security products for Canadians.

The financing of the acquisition of LIG was structured to have no impact on policyholder dividends, and to maintain the financial strength and credit ratings of the companies, which continued to receive superior ratings from six rating agencies.

For participating policyholders, the Company was able to once again maintain its dividend rate in 1997, paying out $70 million in dividends. This continues a performance level that is attractive to our customers and that over the long term is consistently among the best in the industry. Ultimately, our participating policyholders are expected to benefit from lower ongoing costs as a result of the acquisition.

UNITED STATES: RESPONDING TO CHANGE

There are common themes in the strategies of Great-West in Canada, and Great-West Life & Annuity (GWL&A) in the United States: developing innovative financial products and services, diversifying distribution systems and developing economies of scale resulting in lower unit costs. However, the tactics are markedly different, reflecting the unique demands of the marketplace.

While GWL&A continues to focus on its established businesses in the U.S., the Company is also investing in opportunities that are tied to its core capabilities. For example, GWL&A has been aggressively participating in the evolution of the health insurance business by transforming itself from yesterday's indemnity insurer to tomorrow's managed care company. Where in the past, GWL&A's focus was to fund and pay for incidents of illness, it is expanding to see that health care dollars are spent efficiently and effectively. In this changing world, GWL&A has the potential to add much greater value for its customers and their employers.

Another example is the provision of administrative services to pension customers for whom GWL&A does not manage the assets. GWL&A's administrative systems are fully automated and designed to provide participants with a high degree of convenience and accuracy in accessing personal account information and performing routine fund transactions. In meeting demands for these services, the Company is also providing services that have the potential of improving administrative unit costs for all its customers.

ACHIEVING BALANCE

Great-West enters 1998 with stronger, more balanced North American operations, that are taking steps to secure their place in the evolving competitive landscape. We believe the strategies outlined here will successfully answer the challenges of the marketplace. Our confidence is based on our ability to continue to provide value to customers and shareholders – a strength enhanced by the initiatives discussed here.

J W Burns
JAMES W. BURNS
Chairman of the Board

RAYMOND L. McFEETORS
President and Chief Executive Officer
The Great-West Life Assurance Company

WILLIAM T. McCALLUM
President and Chief Executive Officer
Great-West Life & Annuity Insurance Company

The Management's Discussion and Analysis (MD&A) presents management's view of the financial position and performance of The Great-West Life Assurance Company in 1997 compared with 1996. The MD&A provides an overall discussion, followed by analyses of the Company's Canadian and United States operations.

STRUCTURE

Great-West Lifeco Inc. holds a 99.5% voting interest in The Great-West Life Assurance Company (Great-West, the Company). Great-West's principal subsidiaries at December 31, 1997 are London Insurance Group (LIG), a company domiciled in the province of Ontario which holds a 98.2% voting interest in London Life Insurance Company (London Life), and Great-West Life & Annuity Insurance Company (GWL&A), a company domiciled in the state of Colorado. Great-West holds a 100% voting interest in the outstanding common shares of LIG and 100% of the outstanding common and preferred shares of GWL&A.

Through Great-West and LIG in Canada and GWL&A in the United States, a wide range of life insurance, health insurance, and retirement and investment products, as well as specialty reinsurance and general insurance products are offered to individuals, businesses and other private and public organizations.

1997 CONSOLIDATED OPERATING RESULTS

The Great-West Life Assurance Company
Selected Consolidated Financial Information
(in $ millions, except per common share amounts)

	1997	1996	% Change
For the Year			
Premiums for life insurance, guaranteed annuities, insured health products, and reinsurance and property and casualty	$ 4,587	$ 3,532	30%
Self-funded premium equivalents (ASO contracts)	3,500	3,250	8%
Segregated fund deposits	4,178	2,823	48%
Total premium income	$ 12,265	$ 9,605	28%
Fee and other income	$ 705	$ 567	24%
Net income before provision for integration costs			
Attributable to participating policyholders	$ 29	$ 13	123%
Attributable to shareholders	359	304	18%
Total	$ 388	$ 317	22%
Net income			
Attributable to participating policyholders	$ (18)	$ 13	(238%)
Attributable to shareholders	264	304	(13%)
Total	$ 246	$ 317	(22%)
Return on common shareholders' equity before provision for integration costs	18.7%	17.9%	
Return on common shareholders' equity	13.2%	17.9%	
Per Common Share			
Net earnings before provision for integration costs	$ 158.63	$ 135.62	17%
Net earnings	112.23	135.62	(17%)
Dividends paid	66.40	54.40	22%
Book value	1,117.76	801.02	40%
At December 31			
General funds assets	$ 52,069	$ 27,999	86%
Segregated funds assets	22,162	12,342	80%
Other assets under administration	1,286	–	–
Total assets under administration	$ 75,517	$ 40,341	87%
Capital stock and surplus	$ 4,758	$ 2,528	88%

Net income of Great-West for 1997 was $388 million, excluding a special charge of $142 million, compared to $317 million for 1996. After deducting preferred share dividends, net income attributable to common shareholders, before the special charge, was up 20% to $325 million or $158.63 per share compared with $271 million or $135.62 per share for 1996. The return on common shareholders' equity excluding the special charge, was 18.7%, compared to 17.9% a year ago. There was an average of 2.047 million Great-West common shares outstanding in 1997, compared to 2.0 million during 1996.

Significant items included in net income of Great-West for 1997 related to the $2.9 billion acquisition of 100% of the common shares of LIG in the fourth quarter are:

- the operating results of LIG and the amortization of $1.7 billion of goodwill commencing November 14, 1997 which, together with preferred share dividends and financing costs associated with the transaction, resulted in a net increase to 1997 income attributable to common shareholders of $2.87 per share.
- a special charge of $142 million after tax, of which $47 million was attributable to participating policyholders and $95 million was attributable to common shareholders, or $46.40 per common share.

For the fourth quarter of 1997, net income attributable to common shareholders was $90 million or $41.29 per share excluding the special charge of $95 million, compared with $72 million or $35.97 per share for 1996.

Net income attributable to common shareholders, including the special charge, was $230 million or $112.23 per share for the year and a loss of $5 million or ($5.11) per share for the fourth quarter including ($2.65) per share for the dilution effect of additional shares issued. Net income reflects superior investment performance, favorable mortality, continued emphasis on expense management and increased fee income as a result of growth of segregated fund assets for both Canada and United States operations.

Total premium income, including self-funded premium equivalents (administrative services only or ASO contracts) and segregated fund deposits, was $12.3 billion for 1997, 28% higher than in 1996. Total premium income includes $1.4 billion of premium equivalents of LIG for the period from November 14, 1997 to the end of the year.

Total assets under administration increased to $75.5 billion at December 31, 1997, up 87% from a year ago. This result includes the assets under administration for LIG of $28.5 billion at December 31, 1997. The significant increase in segregated fund assets in both Canada and the United States reflects strong sales and significant market appreciation.

Fee income (which represents primarily management fees for segregated funds and administration fees for ASO contracts) of $705 million was up 24%, compared to 1996. This reflects the growth in segregated fund assets and ASO contracts in the United States.

Payments and provisions for policyholder benefits increased 24%. Commissions and operating expenses increased 24%. Operating expenses were 7% of total premium income for the year, the same as for 1996.

Great-West's second quarter of 1997 included a release of provision for income taxes of $32 million ($25 million attributable to common shareholders) due to the resolution of 1990 and 1991 United States tax issues. The first quarter of 1996 included a release of provision for income taxes of $35 million attributable to common shareholders due to the resolution of United States tax issues related to 1988 and 1989.

ACQUISITION OF LONDON INSURANCE GROUP (LIG)

During November and December of 1997, Great-West acquired 100% of the issued and outstanding common shares of LIG for a purchase price of $2.9 billion including acquisition costs. Financing of the acquisition was provided through a combination of $1,829 million cash, $569 million preferred shares and $548 million common shares. Proceeds from an additional $400 million of common shares issued by private placement to Lifeco were applied to the acquisition.

Goodwill of $1.7 billion recorded in connection with the purchase, has been allocated to the Shareholders account and is being amortized over a period not exceeding 30 years.

The Par accounts of both Great-West and its subsidiary London Life will benefit from lower ongoing costs as a result of the acquisition. The Boards of Directors of both companies have approved a contribution of up to $250 million (the estimated present value of the cost savings net of the Par accounts' integration costs) towards the acquisition financing. The Appointed Actuaries of both companies and two actuarial consulting firms have provided opinions that the transaction treats participating

policyholders fairly. Since the initial amount will be adjusted by the end of 2002 to reflect the actual net cost savings realized as a result of the acquisition, the dividend expectations of participating policyholders are unaltered. Over the longer term, the par accounts of both companies are expected to benefit directly and indirectly from the acquisition.

Estimated integration costs of $250 million, $142 million after tax, have been charged to 1997 earnings of the Company. These costs were allocated between the Participating and Shareholders accounts ($47 million Participating, $95 million Shareholders), in relation to the anticipated expense synergies resulting from this business combination.

The impact of the acquisition of LIG on the year-end 1997 consolidated balance sheet of the Company is outlined below:

CONDENSED BALANCE SHEET

December 31, 1997 (in $ millions)

	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Consolidated
Assets				
Bonds	$ 17,716	$ 10,141	$ 449	$ 28,306
Mortgage loans	3,517	7,229	156	10,902
Stocks	3,315	366	(2,891)	790
Real estate	500	962	(22)	1,440
Loans to policyholders	4,197	956	–	5,153
Cash and certificates of deposit	339	548	–	887
Funds withheld by ceding insurers	–	939	–	939
Goodwill	–	22	1,699	1,721
Other assets	1,119	1,449	(637)	1,931
Total assets	$ 30,703	$ 22,612	$ (1,246)	$ 52,069
Liabilities, Capital Stock and Surplus				
Policy liabilities	$ 23,518	$ 17,956	$ 617	$ 42,091
Current income taxes	94	155	–	249
Repurchase agreements	708	–	–	708
Commercial paper and other loans	118	723	(30)	811
Other liabilities	2,295	1,480	(608)	3,167
Minority shareholders' interests	–	35	250	285
Capital stock and surplus	3,970	2,263	(1,475)	4,758
Total liabilities, capital stock and surplus	$ 30,703	$ 22,612	$ (1,246)	$ 52,069

LIG, through its subsidiary companies, provides insurance and insurance-related services in selected domestic and international markets. The life insurance services provided through London Life Insurance Company (London Life) remain the core business of LIG. In addition, LIG has expanded its insurance operations outside of Canada. London Life, a federally incorporated life insurance company governed by the Insurance Companies Act (ICA), is licensed to do business in all provinces and territories of Canada, as well as Bermuda and in the states of Michigan and Minnesota. Through its reinsurance subsidiaries, it holds licenses or authorizations to conduct reinsurance business in 45 U.S. states and from offices in Bridgetown, Barbados; Dublin, Ireland; and Blue Bell, Pennsylvania. It also holds a license in Taiwan through its joint venture, Shin Fu Life Insurance Company (Shin Fu). Specialty general insurance operations are conducted through London Guarantee Insurance Company (London Guarantee), a fidelity and surety business.

The acquisition also included London Life's 200 offices and career agency force of 2,900 across Canada, as well it's widely-recognized Freedom 55 brand.

TOTAL ASSETS UNDER ADMINISTRATION

December 31, 1997 (in $ millions)

	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Consolidated
General funds	$ 30,703	$ 22,612	$ (1,246)	$ 52,069
Segregated funds	17,562	4,600	–	22,162
MAXXUM mutual funds	–	695	–	695
Mortgages administered for third parties	–	591	–	591
Total assets under administration	$ 48,265	$ 28,498	$ (1,246)	$ 75,517

The acquisition of LIG creates the largest provider of individual life and group life and health insurance plans in the Canadian market. The new organization is well positioned for growth in all market sectors. It has the largest market share in Individual life insurance (22% of the market and 2.2 million customers), in Group life and health insurance (18% of the market and 6.8 million Canadians covered), and in the Segregated fund market (23% of the market).

While size is not an objective in itself, it offers significant advantages in today's financial services marketplace, which is in a period of industry consolidation, driven primarily by technological developments and the expanding needs of consumers. Current and future customers and shareholders will benefit from product and service enhancements, expanded distribution capacity, and an increased capacity for innovation and responsiveness to the marketplace. It will also allow productivity and revenue gains for each company, through the elimination of redundancies, improvements to systems and work processes, and the restructuring of operating units.

The Company is committed to maintaining distinct identities for Great-West and London Life. The two companies will be realigned to build on existing strengths of each organization. The Individual insurance sales forces will remain separate and competitive. This will strengthen each company's ability to distribute existing and new financial products at lower costs and with enhanced sales and service support to compete with banks and direct distribution channels. Where appropriate, London Life's career agency sales force will distribute Great-West branded products, such as disability insurance and group insurance products; Great-West will distribute London Life branded large group retirement products. The companies will each retain certain proprietary brands. A single Individual Insurance and Investment Products division will provide product devel-

The organization chart of the principal subsidiaries acquired by Great-West as a result of the acquisition of LIG is as follows:

For a complete description of the Company's subsidiaries, see the Corporate Profile on page 2.

opment, administration and marketing support for both Great-West and London Life branded products.

The Group insurance organizations of London Life and Great-West will be combined into a single sales and service organization, providing products and services under the Great-West brand.

FINANCIAL POSITION

Total assets under administration grew to $75.5 billion at year-end 1997, an increase of $35.2 billion from 1996. Assets under administration include segregated funds of $22.2 billion at December 31, 1997, compared to $12.3 billion at the end of 1996.

Obligations to policyholders made up 89.5% of total liabilities at the end of 1997 (91.0% at year-end 1996). The valuation of policy liabilities is certified by the Appointed Actuary of Great-West as being in accordance with accepted actuarial practice.

United States assets and liabilities are translated into Canadian dollars at the December 31 market rate of $1.43 for 1997 and $1.37 for 1996. The change in translation rate in 1997 of $0.06 had the effect of increasing 1997 assets by $867 million, liabilities by $792 million, and common shareholders' equity by $53 million.

Total capital and surplus, including minority shareholders' interests, of $5.0 billion at December 31, 1997 was 10.7% of total liabilities, compared with $2.5 billion or 9.9% in 1996. It is the Company's intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

As a federally-incorporated life insurance company in Canada, Great-West is required to maintain capital and surplus at levels specified by The Office of The Superintendent of Financial Institutions Canada (OSFI) under its Minimum Continuing Capital and Surplus Requirements (MCCSR) for Life Insurance Companies. Great-West had a MCCSR ratio of 185% at the end of 1997 (214% at the end of 1996 using the 1997 calculation basis). The reduction in the ratio reflects the LIG acquisition.

Common shareholders' equity increased to $2.6 billion at December 31, 1997 from $1.6 billion at year-end 1996. During 1997, the quarterly dividend rate paid on common shares was increased from $15.40 per share to $17.00 per share for the June, September and December dividend, for a total dividend of $66.40 for the year. Book value per common share was $1,117.76 at December 31, 1997, compared with $801.02 at December 31, 1996.

In the fourth quarter of 1997, 370,948 common shares were issued by private placements for net proceeds of $948 million.

Participating policyholders equity increased to $1,264 million at December 31, 1997, from $471 million at the end of 1996. The acquisition of London Life accounted for $788 million of the increase. Dividends paid or credited to participating policyholders in 1997 were $257 million compared to $186 million in 1996.

RATINGS OF GREAT-WEST

Rating Agency	Measurement	Rating
A.M. Best Company	Financial Condition and Operating Performance	A++*
Canadian Bond Rating Service	Investment Strength	A++*
Dominion Bond Rating Service	Claims Paying Rating	IC-1*
Duff & Phelps Corporation (1)	Claims Paying Ability	AAA*
Moody's Investors Service	Insurance Financial Strength	Aa2
Standard & Poor's Corporation	Claims Paying Ability	AA+

(1) under credit watch

RATINGS OF LONDON LIFE

Rating Agency	Measurement	Rating
A.M. Best Company	Financial Condition and Operating Performance	A++*
Canadian Bond Rating Service	Investment Strength	A++*
Dominion Bond Rating Service	Claims Paying Rating	IC-1*
Duff & Phelps Corporation	Claims Paying Ability	–
Moody's Investors Service	Insurance Financial Strength	Aa2
Standard & Poor's Corporation	Claims Paying Ability	AA+

**highest rating available*

ASSET QUALITY

At December 31, 1997, exposure to mortgage loans and real estate was 26% of invested assets compared with 17% at the end of 1996. The 1997 exposure includes $4.9 billion of residential mortgage loans held by LIG.

The Company's exposure to non-investment grade bonds was 1.3% of the portfolio at the end of 1997, unchanged from December 31, 1996.

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled $153 million or 0.3% of invested assets at December 31, 1997, compared with $220 million and 0.8% a year earlier. The Company's allowance for credit losses at December 31, 1997 was $175 million or 114% of non-performing loans, compared with $166 million or 75% of non-performing loans at year-end 1996. Normal provisions for credit losses charged to operations were $26 million in 1997, down from the 1996 level of $35 million.

Derivative Instruments

Derivative instruments or products are used by the Company for the following purposes:

- *Asset/liability management*
  The use of forwards, futures, swaps and options as a supplement to portfolio investments allows the Company to modify a particular asset position or a portfolio profile to more closely match actual or committed liability characteristics, such as cash flow, term or currency.
- *Investment in United States operations*
  The use of foreign exchange forwards and swaps allows the Company to hedge or manage a portion of its exposure to foreign exchange volatility with respect to its investment in the United States and the translation of its United States operating results into Canadian currency.

The Company's risk management process governing the use of derivative instruments, includes:

- The Company acts only as an end-user of derivative products, not as a counterparty or market maker.
- The Company has strict operating policies which
  - prohibit the use of derivative products for speculative purposes,
  - permit transactions only with approved counterparties,
  - specify limits on concentration of risk,
  - document approval and issuer limits, and
  - document the required reporting and monitoring systems.

The Company's outstanding derivative products at December 31 and the related exposures are described in note 14 of the Great-West Life financial statements.

ASSET DISTRIBUTION

December 31 (in $ millions)

	1997					1996	
	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Total		Total	
Government bonds	$ 4,927	$ 4,869	$ 216	$ 10,012	21%	$ 5,068	19%
Other bonds	12,789	5,272	233	18,294	38	12,573	47
Mortgages	3,517	7,229	156	10,902	23	3,972	15
Stocks	394	366	30	790	2	693	2
Real estate	500	962	(22)	1,440	3	636	2
Subtotal portfolio investments	22,127	18,698	613	41,438		22,942	
Cash & certificates of deposit	339	548	–	887	2	230	1
Policy loans	4,197	956	–	5,153	11	3,856	14
Total invested assets	$ 26,663	$ 20,202	$ 613	$ 47,478	100%	$ 27,028	100%

ACTUARIAL LIABILITIES AND PROVISION FOR CLAIMS (POLICY LIABILITIES)

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Asset and liability cash flows are carefully matched to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has shielded the Company's financial position from significant interest rate swings which have occurred.

Reference is made to note 6 of the Great-West financial statements, Actuarial Liabilities, which presents the composition, nature, changes, assumptions and risk management issues associated with this significant balance sheet item.

YEAR 2000

Information technology is widely used by the Company in conducting its own business operations and interfacing with customers, suppliers and counterparties. The systems and processes that could potentially be unable to function with the year 2000 date require modification or replacement.

The Company has programs in place which include identification of non-compliant business processes, development of remedial solutions and the implementation of those solutions. Certain processes already have been modified or replaced and others are in progress. The remaining work is expected to be complete in 1998, with compliance testing and certification in early 1999.

The Company also has programs to review the compliance status of related third-party systems and processes.

Costs are being charged to operations as incurred and are not expected to have a material effect on the Company's consolidated results of operations and financial position.

The discussion of operating results is followed by a report on operations of the Canadian segment presented in terms of the traditional major Canadian business segments of The Great-West Life Assurance Company (Great-West, the Company) and a new segment associated with the London Insurance Group (LIG):

- **Group Insurance** – life, health and disability insurance products for group clients.
- **Individual Insurance** – life and disability insurance products for individual clients.
- **Retirement & Investment Services** – accumulation and payout annuity products for both group and individual clients.
- **Investment** – management of assets – general funds, segregated funds and other managed funds.
- **Reinsurance and Specialty General Insurance** – life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche business markets.

1997 CANADIAN OPERATING RESULTS

Reference is made to note 16 of the Great-West financial statements, Segmented Information, for the presentation of Canadian operations and identifiable assets.

The Canadian segment of Great-West acquired LIG effective November 13, 1997. The Company's consolidated operations include the 48-day period, November 14 to December 31, of LIG's 1997 operating results. LIG publishes an annual report giving a detailed discussion and analysis of its activities for the full year. Copies of the annual report are available from the Secretary of LIG or from the Secretary of Great-West.

To facilitate year over year comparisons, the discussion of 1997 Canadian operating results refers to the results of Great-West, excluding the 48 days of LIG's results. Where relevant, the additional information is provided in supplementary form.

The Great-West Life Assurance Company

SELECTED CONSOLIDATED FINANCIAL INFORMATION – CANADIAN SEGMENT

(in $ millions)	1997				1996
	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Total Canadian Operations	Total Canadian Operations
For the Year					
Premiums for life insurance, guaranteed annuities, insured health products, and reinsurance and property and casualty	$ 1,338	$ 1,230	–	$ 2,568	$ 1,314
Self-funded premium equivalents (ASO contracts)	647	39	–	686	611
Segregated fund deposits	1,070	149	–	1,219	868
Total premium income	$ 3,055	$ 1,418	–	$ 4,473	$ 2,793
Fee and other income	$ 104	$ 20	–	$ 124	$ 80
Operating expenses	218	70	8	296	206
Net income before provision for integration costs					
Attributable to participating policyholders	$ 12	$ 12	$ –	$ 24	$ 10
Attributable to shareholders	135	14	(8)	141	115
Total	$ 147	$ 26	$ (8)	$ 165	$ 125
Net income					
Attributable to participating policyholders	8	(31)	–	(23)	10
Attributable to shareholders	82	(28)	(8)	46	115
Total	$ 90	$ (59)	$ (8)	$ 23	$ 125
At December 31					
General fund assets	$ 10,040	$ 22,612	$ (1,246)	$ 31,406	$ 8,161
Segregated fund assets	6,363	4,600		10,963	4,899
Other assets under administration	–	1,286		1,286	–
Total assets under administration	$ 16,403	$ 28,498	$ (1,246)	$ 43,655	$ 13,060

Net income from Canadian operations of Great-West, excluding LIG, for 1997 before the special charge for integration was $147 million, compared to $125 million for 1996. Net income attributable to common shareholders was $118 million, up from $99 million for 1996.

The 18% increase in Great-West net income was due to a combination of expense management, strong investment results and increased segregated fund fee income, together with favorable mortality, offset by some deterioration in group morbidity.

Net income attributable to participating policyholders before policyholder dividends, excluding LIG and before the 1997 special charge for integration, was $82 million compared to $77 million in 1996. Policyholder dividends were $70 million for 1997.

Total assets under administration in Canada reflect a 30% growth in segregated fund assets in 1997, due to strong sales as well as market appreciation for both fixed income and equity investments.

Total premium income increased 9% for 1997 due primarily to increased segregated fund deposits. Premium income for risk products was up 2%, reflecting an increase in Group premiums offset partially by a decrease in guaranteed annuity premiums.

OPERATING EXPENSES
(excluding LIG)

For the years ended December 31 (in $ millions)	1997	1996	1995	1994	1993
Total Operating Expenses					
Human Resources	$ 119	$ 112	$ 111	$ 108	$ 114
Employee Benefits	16	15	17	16	18
Rent	6	6	7	9	10
Other	77	73	59	54	50
Total	$ 218	$ 206	$ 194	$ 187	$ 192
Year over year growth	5.8%	6.2%	3.8%	(2.3%)	–

GROUP OPERATIONS – GREAT-WEST

The Group division provides a wide range of group insurance products to more than 11,000 employers across Canada. Great-West has significant presence in all market segments – by region, case size and product. The Company covers more than 5.3 million Canadians through its group products – life and accidental death and dismemberment insurance, short and long-term disability insurance, health and drug coverages not provided by Medicare, dentalcare, visioncare and employee assistance plans.

The goal of the Group division is to enhance its position as the pre-eminent multi-line Group insurer in Canada through strong customer focus, continued innovations in products and services, and the development of unique solutions to meet emerging client needs.

THE ACQUISITION OF LIG'S GROUP INSURANCE BUSINESS HAS ADDED A FURTHER 11,000 EMPLOYERS ACROSS CANADA, GIVING THE COMBINED GROUP ORGANIZATION SIGNIFICANT MARKET SHARE IN ALL MARKET SEGMENTS. GREAT-WEST'S EXPANDED GROUP DISTRIBUTION CAPACITY, INCREASED PREMIUM BASE ACROSS WHICH TO SPREAD EXPENSES, EXPANDED DATA BASE FOR CLIENT PLAN ANALYSIS AND THE OPPORTUNITY TO SELECT THE BEST PROCESSES, SYSTEMS AND PEOPLE FROM BOTH COMPANIES WILL ENABLE GREAT-WEST TO MEET THE EMERGING CLIENT NEEDS IN THE CANADIAN GROUP MARKETPLACE.

During 1997, the Group division experienced:

- continued strong growth in the small/mid-sized markets in terms of both sales and revenue premium,
- improved market share as measured by group revenue premium,
- improved mortality results across all markets, and
- deterioration in morbidity results, in the mid-sized and large case markets. The volatile long-term disability business experienced a significant deterioration in 1997.

OPERATIONS SUMMARY *(Group life, health and disability products in total)*
(excluding LIG)
(in $ millions)

	1997	1996	% Change
Sales (new annualized premium)			
Small/mid-sized	$ 91	$ 71	28%
Large	54	91	(41%)
Total	$ 145	$ 162	(10%)
Revenue Premium Income			
Small/mid-sized	$ 420	$ 373	13%
Large	1,180	1,128	5%
Total	$ 1,600	$ 1,501	7%

Group sales totalled $145 million, down 10% from 1996. However, sales in the small to mid-sized markets continued to grow significantly, reflecting the Company's distribution and product strengths in these expanding markets. Large case sales returned to historical levels, reflecting the reduced sales opportunities in this market as compared to 1996.

Revenue premium, at $1.6 billion, was up 7% in total. Importantly, revenue premium growth in the target small and mid-sized markets was up nearly 13%, resulting in a strengthened market share position. A further contributor to this improving market share position was persistency of business. Persistency, reflecting the clients' satisfaction with Great-West's group products and services, continued at very high levels.

The Group division's expense ratio (expenses over revenue premium) showed a small deterioration on a year over year basis. Expenses naturally increase with a shift in business mix toward more expense intensive, smaller-sized cases and the growth in directly recoverable claims service expenses. When adjusted for these changes, Great-West's industry leading group expense ratio improved when compared to 1996.

Group mortality results were favorable in 1997 across all sizes of markets. These very strong results were offset by a deterioration in group morbidity. Poor results in the volatile disability market and a significant deterioration in health results, due to aggressive pricing in the marketplace, were the main reasons for the deterioration in group morbidity.

In health and dental claims services, Great-West maintained superior claims turnaround times and quality control standards. During 1997, the centralized claims offices handled 6.8 million claims. On-line claims adjudication with selected dental offices grew a further 28% and now accounts for 30% of all dental claims received. This growth in electronic claims adjudication provides a significant opportunity to lower expenses while improving customer service.

In 1997, Canadian employers and plan sponsors continued to pursue employee benefit cost control initiatives, showing increased interest in managed care products, plan design improvements and more economic approaches to plan administration. In response, Great-West introduced:

- Benefit Administration Outsourcing: A capacity to assume responsibility for the client benefit administration function in a cost-efficient manner.
- Expanded GroupNet services (Internet-based administration services): These services now include a new direct enrollment capacity and new claims and benefit plan analysis.
- Expanded disability management through Great-West's Coordinated Disability Care Product (CDC): New services were introduced through the Great-West employee assistance plan – CONTACT. This product now includes wellness seminars and has expanded its current counselling services to include

THE ACQUISITION OF LIG'S GROUP INSURANCE BUSINESS WILL SUBSTANTIALLY ENHANCE THE COMPANY'S SALES AND REVENUE PREMIUM INCOME RESULTS. IN 1997, LIG REPORTED REVENUE PREMIUM AT $1.09 BILLION – WHICH, WHEN COMBINED WITH GREAT-WEST, PRODUCES A TOTAL REVENUE PREMIUM APPROACHING $2.7 BILLION – NEARLY TWICE THE LEVEL OF THE NEAREST COMPETITOR.

financial, legal, childcare and eldercare services. As well, Great-West's decentralized disability claims adjudication offices were restructured to more effectively service clients who have selected Great-West's CDC product.

Great-West anticipates further growth in the group market, particularly in the small and mid-sized employer ranges, where significant employment growth is expected to continue. Employers will continue to implement new benefit plan designs and seek out new benefit plan services aimed at containing overall benefit plan costs. This marketplace activity offers opportunities for companies with efficient, low-cost operations and modern systems with on-line electronic capacity. Among Great-West's current initiatives are continued expansion of on-line services through GroupNet, introduction of improved client software for client site administration and further new service offerings through the CDC product. As well, an automated new business implementation process, scheduled for delivery in 1998, will substantially enhance new customer services.

To compete effectively in 1998 and beyond, a company must offer affordable, innovative products which respond to changing client needs. Great-West's excellence in these areas, combined with its significant market position and expanded distribution capacity, solidifies the Company's position as an innovative market leader in the Canadian group insurance marketplace.

A MAJOR FOCUS IN 1998 WILL BE COMBINING THE GROUP INSURANCE BUSINESS OF BOTH GREAT-WEST AND LONDON LIFE INTO A SINGLE OPERATIONAL UNIT. DURING THE INTEGRATION PHASE, THE MAJOR CHALLENGE AND MANAGEMENT FOCUS WILL BE TO MAINTAIN CUSTOMER SERVICE. IN THIS REGARD, ORGANIZATIONAL CHANGES HAVE OCCURRED AND SPECIFIC CUSTOMER FOCUSED INITIATIVES ARE UNDER WAY TO ENSURE THAT SUPERIOR SERVICE STANDARDS ARE ATTAINED. ONCE INTEGRATION HAS BEEN COMPLETED, THE COMBINED ORGANIZATION WILL HAVE SIGNIFICANT STRATEGIC OPPORTUNITY TO ENHANCE THE VALUE OF ITS PRODUCTS AND SERVICES TO BOTH EXISTING AND NEW CLIENTS.

INDIVIDUAL OPERATIONS – GREAT-WEST

The Individual Operations division provides life and disability insurance products and services designed to meet the evolving needs of today's consumer.

Great-West's individual business is built on three pillars: a broad portfolio of insurance products that provide high consumer value, support for agents in the form of state-of-the-art technology and education, and agent compensation that recognizes ongoing service to clients. During 1997, the Great-West agency force grew by 2% from 741 agents to 756 agents, with a four-year agent retention rate higher than industry average. (The London Life agency force ended 1997 with 2,920 agents, giving a combined total for London Life and Great-West of nearly 3,700 representatives.) The value of the advice and service provided by our personal agents is an important competitive strength for the Company and contributes to a favorable client retention rate.

The division's financial objectives are to achieve steady growth in the individual life insurance business, improvements in unit cost, and overall mortality and morbidity results that are within the levels anticipated in product pricing.

During 1997, the Individual Operations division performed well against its financial objectives as follows:

- growth in life insurance and disability new annualized premium,
- growth in life insurance and disability revenue premium,
- improved unit costs, and
- mortality and morbidity results at or below pricing levels.

Productivity improvement and expense management have been a main focus in recent years for both the life and disability insurance operations. Overall unit costs for the division declined by 5% from 1996 levels.

Life Insurance

Great-West offers participating whole life (par), universal life and term insurance products (non-par) for Canadian consumers. Overall, individual life insurance revenue premiums were $254 million for 1997, a 4% increase over 1996. Mortality results were favorable and customer retention was at expected levels for all three product categories.

WHILE GREAT-WEST'S SHARE OF THE INDIVIDUAL LIFE INSURANCE MARKET HAS HISTORICALLY BEEN SMALL, THROUGH THE ACQUISITION OF LONDON LIFE THIS IMPORTANT LINE OF BUSINESS BECOMES PART OF AN ORGANIZATION THAT LEADS THE CANADIAN MARKETPLACE. THE ASSOCIATED ECONOMIES OF SCALE WILL BENEFIT GREAT-WEST'S PRODUCT LINES AND SERVICE CAPABILITIES. IN TERMS OF INDIVIDUAL LIFE INSURANCE POLICIES IN FORCE, LONDON LIFE HAS OVER 2.6 MILLION AND GREAT-WEST MORE THAN 300,000 FOR A CONSOLIDATED TOTAL IN EXCESS OF 2.9 MILLION POLICIES. GREAT-WEST ALSO HAS OVER 105,000 DISABILITY INSURANCE POLICIES IN FORCE, HELPING CANADIANS PROVIDE FOR THEIR FINANCIAL SECURITY. THE GREAT-WEST INDIVIDUAL LIFE INSURANCE OPERATION WILL BE MERGED WITH THE LONDON LIFE OPERATION IN 1998. THE COMBINED OPERATION WILL ADMINISTER THE INDIVIDUAL LIFE BUSINESS OF BOTH COMPANIES.

Total life insurance sales for 1997 increased by 4% in terms of new annualized premium, compared to an industry with flat sales. Par sales were at the same level as 1996 and non-par sales increased by 8%. Under a 1995 agreement with I. G. Insurance Services, Inc. (a subsidiary of Investors Group Inc.), Great-West is a preferred provider to Investors Group representatives for individual term and participating life insurance, and the exclusive provider of individual disability insurance products. Investors representatives accounted for 29% of Great-West's life insurance sales premium in 1997.

In 1997, Great-West added a new universal life product, *DiscoverLife*, which offers a competitive array of features and investment options. In addition, Great-West reduced its term rates for new business to reflect improving mortality results.

As well as receiving the benefits associated with insurance coverage, Great-West's 149,000 participating policyholders share in the performance of the Participating Account. The par policyholder dividend scale did not change in 1997, as improved mortality results offset a small decline in the portfolio investment yield. Dividends to participating policyholders were $70 million for 1997, compared to $67 million for 1996. The Company's sound investment, underwriting and expense management have enabled it to deliver long-term dividend performance that is consistently among the best in the industry. The Company's emphasis on par products will continue in 1998, along with new software applications and marketing concepts to help sales representatives identify and provide for the financial security needs of their clients.

This line of business continues to be important since it is a key element in the broad portfolio of products offered by the Company.

Disability Insurance

Individual disability insurance (DI) revenue premiums were $87 million for 1997, a 5% increase over 1996. Morbidity results were at levels assumed in product pricing and client retention continued at favorable levels.

Sales of non-cancellable DI decreased by 7% during 1997 in terms of new annualized premium, in a market that declined by almost 6%. However, strong sales from *Competitor*, a cancellable product, resulted in an overall 8% increase in new annualized premium.

OPERATIONS SUMMARY
(excluding LIG)
(in $ millions)

	1997	1996	% Change
Individual Life Insurance			
Sales (new annualized premium)	$ 21	$ 20	4%
Revenue premium income	254	243	4%
Individual Disability Insurance			
Sales (new annualized premium)	$ 15	$ 14	8%
Revenue premium income	87	82	5%
Number of agents	756	741	2%

The *Competitor* product is particularly suited to the growing part-time, seasonal, home-based and new business owner markets, which have not been well served by the traditional non-cancellable products. It is a simpler, more affordable product that offers fewer guarantees than the traditional non-cancellable disability products. *Competitor* sales were over $2 million in 1997.

IN 1997, LONDON LIFE JOINED THE INTERCORPORATE PARTNERS SELLING GREAT-WEST INDIVIDUAL DISABILITY INSURANCE PRODUCTS. THIS PRESENTS A SIGNIFICANT GROWTH OPPORTUNITY FOR THE INDIVIDUAL DISABILITY LINE OF BUSINESS WITH THE POTENTIAL OF TAKING OVER THE LEADING MARKET SHARE POSITION IN THIS LINE OF BUSINESS IN CANADA.

Great-West maintained its overall number two individual market share position in the non-cancellable DI market. This market share results from Great-West's broad distribution network, which the Company will continue to develop in 1998. In addition to its own agency force, Great-West has 10 intercorporate arrangements allowing agents of other insurance companies to sell Great-West's disability insurance products. These intercorporate arrangements made up 21% of disability sales in 1997. Brokers, another important source of disability business, accounted for 32% of disability sales for the year. Investors Group sales comprised 10% of total DI sales.

RETIREMENT & INVESTMENT SERVICES – GREAT-WEST

The Retirement & Investment Services (R&IS) division provides long-term savings and investment products for individuals and employer groups. The division focuses its sales and reinvestment activities on segregated funds, which offer the potential for superior investment returns for the customers and satisfactory profit margins for Great-West. The goal of the division is to be the pre-eminent segregated fund provider in Canada.

GWL Investment Management Ltd. (GWLIM), a wholly-owned subsidiary of Great-West, is responsible for client service and marketing to large pension funds. In addition, GWLIM manages Great-West's pooled and separately managed investment funds.

During 1997, the Great-West R&IS division experienced:

- growth in individual savings plan segregated fund assets well in excess of the 34% growth rate of the Canadian mutual fund industry,
- growth in combined individual and group savings plan segregated fund assets of 44%,
- significant growth in individual savings plan revenue premium,
- significant growth in deposits to the back-end load segregated fund options within individual savings plans, and
- a continued shift from guaranteed interest options to segregated funds for new and renewing investors.

AS A RESULT OF THE ACQUISITION OF LONDON LIFE, GREAT-WEST'S R&IS OPERATIONS WILL BE MERGED WITH THE LONDON LIFE OPERATIONS IN 1998. THE COMBINED ORGANIZATION WILL ADMINISTER THE BUSINESS OF BOTH COMPANIES, INCLUDING DEVELOPING AND SUPPORTING SEPARATELY-BRANDED INDIVIDUAL AND SMALL GROUP RETIREMENT PRODUCTS FOR THE GREAT-WEST AND LONDON LIFE INDIVIDUAL SALES FORCES. THIS, TOGETHER WITH THE DOMINANT SEGREGATED FUND MARKET SHARE OF THE COMBINED ORGANIZATION, OFFERS SIGNIFICANT ECONOMIES OF SCALE.

The 1997 RRSP season was very strong for the investment fund industry and for Great-West, as a result of increased contributions, low interest rates, and strong investment markets. The Company developed a marketing process using the *Discovery* Asset Allocation software (introduced in January 1996) which led to a 42% increase in individual savings plan revenue premium income in the first quarter of 1997. Revenue premium income for the full year was $671 million, a 28% increase over the 1996 result of $523 million.

Individual savings plan assets grew 23%, to $3.2 billion. Within this result, segregated fund assets grew 51%, to $2.4 billion, while guaranteed assets declined 23%. As a consequence, at year end, segregated funds represented 75% of total assets, a significant increase from 61% in 1996.

OPERATIONS SUMMARY BY BUSINESS LINE
(excluding LIG)
(in $ millions)

	1997	1996	% Change
Individual Savings Plan			
Sales premium	$ 921	$ 771	19%
Revenue premium income	671	523	28%
Assets under administration			
Guaranteed	791	1,021	(23%)
Segregated funds	2,414	1,595	51%
Total	$ 3,205	$ 2,616	23%
Group Savings Plan			
Sales premium	$ 484	$ 489	(1%)
Revenue premium income	237	217	9%
Assets under administration			
Guaranteed	545	673	(19%)
Segregated funds	1,102	845	30%
Total	$ 1,647	$ 1,518	8%
Group Investment Management			
Sales premium	$ 206	$ 229	(10%)
Revenue premium income	188	193	(2%)
Assets under administration			
Guaranteed	94	133	(30%)
Segregated funds	2,817	2,444	15%
Total	$ 2,911	$ 2,577	13%
Payout Annuities			
Sales premium	$ 37	$ 52	(29%)
Revenue premium income	18	34	(47%)
Guaranteed assets	1,796	1,867	(4%)
Total R&IS			
Sales premium	$ 1,648	$ 1,541	7%
Revenue premium income	1,114	967	15%
Assets under administration			
Guaranteed	3,226	3,694	(13%)
Segregated funds	6,333	4,884	30%
Total	$ 9,559	$ 8,578	11%

Group savings plan revenue premium increased 9% in 1997, to $237 million. Total assets grew 8%, to $1.6 billion, including segregated fund asset growth of 30% and a decline of 19% in guaranteed fund assets. Segregated funds now account for 67% of group savings plan assets, up from 56% in 1996.

Control of operating expenses continues to be important to the division's overall competitiveness and profitability. During 1997, operating unit costs for individual savings plans declined 3%, while group unit costs declined 6% as a result of modest asset growth and reduced expenses.

GWLIM attracted an additional $188 million in revenue premium to group investment management plans in 1997, down 2% from 1996. Total assets increased by 13% to $2.9 billion, largely as a result of segregated fund market appreciation.

To maintain its longer term growth and profitability objectives, the R&IS division must continue to increase segregated fund assets. To this end, several product and service enhancements were introduced in 1997:

- Management fees were reduced slightly on several funds as of July 1, 1997 to remain competi-

tive with the mutual fund industry.

- Eight new funds were added in November to enhance the fund family and provide more reasons for clients and agents to deal entirely with Great-West.
- Enhancements to the *Discovery* Asset Allocation software were made in November to offer more fund combinations and incorporate several new funds.
- New regulatory rules now permit Great-West to sell the Real Estate fund to individuals in Ontario.

Great-West now offers 42 segregated funds, including funds managed by GWLIM, Putnam Advisory Company Inc., Mackenzie Financial Corporation, AGF Management Limited, Sceptre Investment Counsel Limited and Beutel, Goodman & Company Ltd.

During 1997, net deposits to externally-managed segregated funds within individual and group savings plans totalled $461 million, compared to $352 million in 1996. When investment returns are included, assets in these funds grew by $530 million compared with $391 million growth in 1996. Net deposits to GWLIM managed funds totalled $289 million, compared to $102 million in 1996. When investment growth is included, assets in these internally-managed funds increased by $546 million or 27% over 1996.

The new externally-managed funds, *Discovery* software and portfolio funds have been well received by clients and their advisors and contributed to the dramatic growth in segregated funds which the Company has experienced in 1997.

In 1998, Great-West will be providing its agents with more administrative and sales tools such as "client rate of return", account management electronic functions for RRIF/LIF products, and further enhancements to *Discovery*.

This combination of pre-eminent products, sophisticated software and strong asset management is expected to generate the continued segregated fund growth necessary to improve the Company's competitive position and maintain attractive profitability levels.

INVESTMENT OPERATIONS

The Investment division is responsible for managing the Company's general fund and segregated fund assets. Investments are prudently managed to provide a steady source of income to support the cash flow and liquidity requirements of the Company's insurance and investment products. The Company invests the majority of its general funds in high-quality, medium-term and long-term fixed income securities, primarily bonds and mortgages, which reflect the nature of the liabilities being matched.

Great-West reviews its investment strategy on an ongoing basis in light of liability requirements, and current economic and market conditions. The Company's investment policy limits concentrations of risk within its investment and lending portfolios. Great-West's investment portfolio is well diversified by asset class, industry sector, location and by size of borrowers.

General Funds

During 1997, the overall quality of the Company's investment portfolios improved, with a more buoyant economy, a stronger Canadian stock market, firming real estate markets and the improved financial positions of many

ASSET DISTRIBUTION

December 31 (in $ millions)

	1997					1996	
	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Total		Total	
Government bonds	$ 1,570	$ 4,869	$ 216	$ 6,655	24%	$ 1,727	21%
Corporate bonds	2,857	5,272	233	8,362	30	3,203	40
Mortgages	1,634	7,229	156	9,019	32	1,814	23
Stocks	335	366	30	731	3	642	8
Real estate	357	962	(22)	1,297	5	450	6
Subtotal portfolio investments	6,753	18,698	613	26,064		7,836	
Cash & certificates of deposit	20	548	–	568	2	26	–
Policy loans	175	956	–	1,131	4	174	2
Total invested assets	$ 6,948	$ 20,202	$ 613	$ 27,763	100%	$ 8,036	100%

THE ACQUISITION OF LIG BRINGS TOGETHER INVESTMENT OPERATIONS WHICH HAVE MANY SIMILARITIES. LIG MANAGES A LARGE, DIVERSIFIED AND HIGH-QUALITY INVESTMENT PORTFOLIO WHICH PROVIDES A STEADY SOURCE OF INCOME MATCHED TO THE LIABILITY CASH FLOW REQUIREMENTS OF ITS INSURANCE AND INVESTMENT PRODUCTS.

BOND PORTFOLIO QUALITY *(excludes $672 million short-term investments, $335 million in 1996)*
December 31 (in $ millions)

	1997					1996	
	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Total		Total	
Estimated Rating							
AAA	$ 873	$ 3,343	$ 156	$ 4,372	31%	$ 904	19%
AA	802	1,898	88	2,788	19	996	22
A	1,977	3,198	149	5,324	37	2,017	44
BBB	545	1,027	48	1,620	11	599	13
BB or lower	71	162	8	241	2	79	2
Total	$ 4,268	$ 9,628	$ 449	$ 14,345	100%	$ 4,595	100%

borrowers. The greatest improvement in quality occurred in the mortgage portfolio, where stronger real estate markets and low interest rates led to better operating results in a number of properties.

At the end of 1997, total Canadian invested assets in the general account, excluding LIG, were $7.0 billion, down $1.0 billion from the end of 1996 largely reflecting sales of assets to fund the acquisition of LIG and a shift in consumer preference to segregated funds. During 1997, funds available for new investments and mortgages subject to renewal and rate adjustments totalled $1.1 billion and were invested as follows:

- 53% in government and corporate bonds,
- 31% in commercial and residential mortgages, and
- 16% in Canadian equities, policy loans and short-term investments.

Net investment income excluding LIG was $651 million in 1997, down $57 million from 1996. The yield on average invested assets was 8.5%, down from 9.1% for 1996. The decrease in investment income largely reflected lower interest rates on terms greater than five years. Thirty-year bonds fell 100 basis points to 6.0%. Provincial and corporate spreads tightened steadily during the first half of 1997, although they did widen significantly in the fourth quarter. Interest rates on terms shorter than five years increased 125 basis points over the year to approximately 4.25%, in response to Central Bank tightening in the face of strong economic growth and a weaker dollar. The yield differential at December 31, 1997 between 1 year and 30 years was approximately 100 basis points versus 330 basis points at the start of the year.

As in the previous year, bonds accounted for the largest percentage of new investments in the general account for 1997. The bond portfolio excluding LIG has grown from 53% to 64% of invested assets over the past five years. During 1997, the bond portfolio declined by $503 million largely as a result of sales associated with the LIG acquisition. Federal, provincial and other government securities remain unchanged from last year end at 35% of the bond portfolio, while corporate bond investments are 65% of the bond portfolio. Diversification was maintained by investing in a wide range of issues, including foreign issuer bonds which were fully hedged into Canadian dollars. The consolidated bond portfolio totalled $15 billion, representing 54% of invested assets.

The Company continued to enforce strict industry and issuer diversification policies in the bond portfolio, and to minimize exposure to individual credits. These prudent investment policies, combined with conservative underwriting and lending practices, contributed to the very high credit quality of the portfolio. At year-end 1997, 87% of the consolidated bond portfolio was rated A or higher and over 98% was rated investment grade.

The mortgage portfolio is diversified by location, property type and industrial class, and includes both commercial and

residential mortgages. The quality of the mortgage portfolio, excluding LIG, as determined by the Company's internal rating system, improved during 1997 with 40% rated as A or higher, 51% rated BBB, and 9% rated BB or lower. This compared favorably to the previous year when 38% was rated A or higher, 52% rated BBB and 10% rated BB or lower.

The aggregate amount of non-performing loans, excluding LIG, declined to $51 million, or 0.8% of portfolio investments at the end of 1997. This compared to $103 million or 1.3% of portfolio investments a year ago. On a consolidated basis non-performing loans are $100 million or 0.4% of portfolio investments. Total allowances for credit losses, excluding LIG, were $32 million at year-end 1997, reduced from $44 million at year-end 1996, and represented 0.5% of portfolio investments, down from 0.6% at the previous year end. On a consolidated basis, the total allowance for credit losses was $43 million or 0.2% of portfolio investments at December 31, 1997.

Part of the Company's stock portfolio was sold in 1997, reducing the total, excluding LIG, to $335 million or 5% of invested assets, down from $642 million and 8% the previous year. The sales were made in the late August and early September period for the LIG acquisition and locked in market gains. Based on market value, 33% of the stock portfolio remains invested in publicly-traded companies at year-end 1997, down from 75% in the previous year, with the balance invested in a number of private issues. On a consolidated basis, 64% of the portfolio of $731 million is invested in publicly-traded companies at year-end 1997.

> THE ACQUISITION OF LIG IS EXPECTED TO HAVE A FAVORABLE IMPACT ON INVESTMENT OPERATIONS. LARGER ASSET PORTFOLIOS WILL OFFER ECONOMIES OF SCALE. AN INCREASED PRESENCE IN THE INVESTMENT MARKETS SHOULD REINFORCE THE COMPANY'S OPPORTUNITIES TO ACQUIRE FAVORABLE INVESTMENT PRODUCT. THE ACQUISITION OF LIG PROVIDES THE COMPANY WITH A SOURCE OF RESIDENTIAL LOANS THAT IT DID NOT HAVE PREVIOUSLY. THIS ADDITIONAL ASSET CLASS WILL SUPPORT THE COMPANY'S ABILITY TO OFFER COMPETITIVE SAVINGS PRODUCTS TO CUSTOMERS.

At year end, 5% of invested assets, excluding LIG, were held in real estate, down from 6% in 1996. During 1997, the Company's strategy continued to favor disposition of small, non-strategic assets. In 1997, the Company disposed of eight properties, for gross proceeds of $32 million. The Company increased its allowances with respect to the carrying value of its real estate portfolio to $38 million in recognition of possible long-term losses associated with real estate values. On a consolidated basis, 5% of invested assets are held in real estate.

As discussed in note 3(b) of the Great-West financial statements, the Company implemented a new accounting guideline with respect to the recognition of impairment in real estate. As a consequence, real estate carrying values were reduced by $75 million in 1997.

While 1998 has started on a volatile note in the capital markets, reflecting the economic problems in Southeast Asia, the outlook continues to be positive on balance. Inflation and interest rates are expected to remain at relatively low levels. While credit spreads in the fixed-income markets are likely to remain narrow by historic standards, there will be opportunities to invest in good quality mortgages and bonds. The emphasis on maintaining high quality levels in the Company's asset portfolios will be continued.

Segregated Funds

The Investment division supports the Company's strategic emphasis on segregated funds through a wholly-owned subsidiary, GWL Investment Management Ltd. (GWLIM), which provides the specialized investment management and service demanded by the market. GWLIM acts as investment advisor to over 200 major institutional clients, and offers one of the broadest ranges of investment options in separate and pooled funds in Canada.

During 1997, segregated fund assets under management, excluding LIG, grew by $1,464 million or 30%, to $6.36 billion at year end. This includes 25 funds totalling $1,106 million managed by five external managers as sub-advisors to GWLIM. On a consolidated basis, segregated fund assets were $10.96 billion at December 31, 1997.

SEGREGATED FUND ASSETS

December 31 (in $ millions)

	1997			1996	1995	1994	1993
	Great-West excluding LIG Acquisition	LIG	Total				
Stocks	$ 3,673	$ 2,507	$ 6,180	$ 2,788	$ 1,943	$ 1,520	$ 934
Bonds	1,739	1,355	3,094	1,374	1,134	1,121	1,181
Mortgages	438	434	872	440	510	507	453
Real estate	377	38	415	226	210	236	260
Other	136	266	402	71	157	148	74
Total	$ 6,363	$ 4,600	$ 10,963	$ 4,899	$ 3,954	$ 3,532	$ 2,902
Internally-managed	5,257	4,140	9,397	4,359	3,834	3,486	2,902
Externally-managed	1,106	460	1,566	540	120	46	–
Year over year growth	29.9%	37.5%	N/A	23.9%	12.0%	21.7%	–

THE ACQUISITION OF LIG INCLUDES SEGREGATED FUNDS AND MAXXUM MUTUAL FUND ASSETS. LIG'S STRATEGIC EMPHASIS ON SEGREGATED FUNDS AND MUTUAL FUNDS IS SUPPORTED THROUGH ITS INVESTMENT DIVISION, LONDON LIFE INVESTMENT MANAGEMENT, AND THROUGH A WHOLLY-OWNED SUBSIDIARY, LONDON FUND MANAGEMENT, BOTH OF WHICH PROVIDE SPECIALIZED INVESTMENT MANAGEMENT SERVICES IN THIS RAPIDLY GROWING MARKET. THE ADDITION OF THE LIG SEGREGATED FUNDS GIVES GREAT-WEST A 23% SHARE OF THE CANADIAN SEGREGATED FUND MARKET.

LIQUIDITY

The Company uses a number of techniques in the general funds to manage liquidity. Assets are acquired to provide a steady cash flow which is designed to match the requirements of the liabilities. The liabilities are designed to improve the predictability of their cash flows and to reduce the risk of disintermediation to the Company. A portion of the Company's assets are held in highly marketable securities that can be sold to meet cash flow requirements prior to maturity. Additional liquidity is

LIQUID ASSETS – CANADIAN OPERATIONS – GENERAL FUNDS

December 31 (in $ millions)

	1997					1996	
	Balance Sheet Value				Market Value	Balance Sheet Value	Market Value
	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Total			
Cash & certificates of deposit	$ 20	$ 540	$ –	$ 560	$ 560	$ 26	$ 26
Highly marketable securities							
– Government bonds	1,570	4,076	180	5,826	6,020	1,727	1,852
– Corporate bonds	1,675	2,950	130	4,755	4,974	1,999	2,171
– Common/Preferred shares	107	324	26	457	465	454	562
– Residential Mortgages available to securitize	–	199	5	204	198	–	–
Total	$ 3,372	$ 8,089	$ 341	$ 11,802	$ 12,217	$ 4,206	$ 4,611

available through established lines of credit and through the Company's demonstrated ability to access the capital markets.

Liquid assets of $3.4 billion excluding LIG, represent very favorable levels of liquidity protection, particularly when used in combination with the other methods of liquidity management available to the Company.

Consolidated liquid assets which have a security interest by way of pledging total $548 million, primarily associated with reinsurance agreements.

LIABILITY CHARACTERISTICS – CANADIAN OPERATIONS

December 31 (in $ millions)

	1997					1996	
	Book Value				Liquidity Need	Book Value	Liquidity Need
	Great-West excluding LIG Acquisition	LIG	Consolidation Adjustments	Total			
Policies non-cashable prior to maturity or subject to market value adjustment	$ 4,802	$ 10,142	$ 617	$ 15,561	LOW	$ 5,249	LOW
Policies with surcharges	849	6,068	–	6,917	LOW	780	LOW
Policies with no surcharges	556	1,493	–	2,049	HIGH	592	HIGH
Total	$ 6,207	$ 17,703	$ 617	$ 24,527		$ 6,621	

LIG FOLLOWS A PRUDENT STRATEGY TO MEET ITS LIQUIDITY NEEDS INCLUDING A STABLE AND PREDICTABLE SOURCE OF LIQUIDITY FROM OPERATIONS AS WELL AS ACCESS TO ESTABLISHED LINES OF CREDIT.

REINSURANCE AND SPECIALTY GENERAL INSURANCE

This segment is new to the Canadian Operations of Great-West for 1997, as it is part of the operations of LIG acquired by the Company in the fourth quarter of 1997. Consequently, the 1997 financial results of Great-West reflect the operations of this segment for the period November 14 to December 31 only. Premiums earned for the period were $904 million of reinsurance and $7 million of property and casualty insurance.

Making up this segment are the following three major subsidiaries of LIG.

London Reinsurance Group (LRG)

Reinsurance contracts are legal agreements in which an insurer transfers certain risks on its insurance policies to another insurer, called a reinsurer. LRG primarily assumes a lower amount of risk under its specialty reinsurance contracts than a traditional reinsurer. LRG has recently entered the traditional markets in a cautious and controlled manner.

The operations of LRG allow it to selectively participate in attractive, mature global markets and diversify London Life's retail and other insurance operations. LRG reinsures life, property and casualty, accident and health, and annuity business. Contracts are custom designed, underwritten and marketed to major insurance and reinsurance companies around the world, but primarily in the United States and Europe. High quality, financially strong clients with whom long-term relationships can be developed are selected. A variety of products are written to ensure a good mix of business and spread of risk.

London Life International

London Life International's business strategy is to develop joint venture partnerships with strong domestic partners who provide competitive advantage and share similar values, goals and expectations. London Life commenced its first retail insurance operations in Asia in 1993, with the establishment of Shin Fu in Taiwan. London Life International's headquarters are based in Kuala Lumpur, Malaysia.

Shin Fu

Shin Fu is a joint venture between London Life and Central Investment Holding Company, a leading Taiwan diversified investment company. London Life owns nearly

39% of Shin Fu which is capitalized at 2.75 billion New Taiwan dollars, approximately $125 million. Of Shin Fu's assets, less than 9% are invested in the Asian stock markets.

Working with its domestic partners, London Life has adapted and implemented the career agent training systems it uses in Canada.

After its rapid start-up growth, Shin Fu operations are now stabilizing with a strong core of 1,300 full-time sales representatives and management focusing on attracting new sales and retaining customers.

Insurance business sold must be retained for several years to offset the initial sales, underwriting and administration costs. While the insurance being sold today will be profitable over the medium term, the business base needs to grow further, through new sales and business retention to be successful in the long term.

London Guarantee

London Guarantee focuses on underwriting specialty insurance products in niche markets within the property and casualty insurance marketplace in Canada. The Company's strategic value is derived from its expertise in, and focus on, specialty applications of the insurance risk concept. The product portfolio includes fidelity, surety, directors and officers and professional liability insurance. Products are distributed through a network of over 1,600 independent insurance brokers.

The discussion of operating results is followed by a report on operations of the United States segment of Great-West, presented in terms of the major business units of Great-West Life & Annuity Insurance Company (GWL&A, the Company):

- **Employee Benefits** – life, health, disability insurance and 401(k) products for group clients.
- **Financial Services** – accumulation and payout annuity products for both group and individual clients, as well as life insurance products for individual clients.
- **Investment Operations** – management of assets – general funds, segregated funds and other managed funds.

1997 U.S. OPERATING RESULTS

Reference is made to note 16 of the Great-West financial statements, Segmented Information, for the presentation of United States operations and identifiable assets.

The Great-West Life Assurance Company

SELECTED CONSOLIDATED FINANCIAL INFORMATION – UNITED STATES SEGMENT

(in $ millions)

		1997	1996
For the Year			
Sales: (new annualized premium including segregated funds and ASO contracts)			
Employee Benefits	– Group life & health	$ 574	$ 484
	– 401(k)	1,001	695
Financial Services	– Individual life	329	275
	– Individual annuity	355	33
	– Group annuity	498	186
Total sales		$ 2,757	$ 1,673
Premiums for life insurance, guaranteed annuities and insured health products		$ 2,019	$ 2,218
Self-funded premium equivalents (ASO contracts)		2,814	2,639
Segregated fund deposits		2,959	1,955
Total premium income		$ 7,792	$ 6,812
Fee income		$ 581	$ 487
Operating expenses		565	463
Net income – attributable to participating policyholders		$ 5	$ 3
Net income – attributable to shareholders		218	189
Total		$ 223	$ 192
At December 31			
General fund assets		$ 20,663	$ 19,838
Segregated fund assets		11,199	7,443
Total assets under administration		$ 31,862	$ 27,281

Net income from United States operations of Great-West in 1997 was $223 million, up from $192 million in 1996. Net income attributable to common shareholders was $201 million in 1997, compared to $172 million in 1996.

The 16% increase in net income reflects improvements in all lines of business. The Financial Services increase is associated with improved investment income in the asset intensive lines. Employee Benefits earnings were positively affected by growth in variable fee revenue, reductions in unit costs in 401(k) and favorable mortality in group life. A release of a provision for income taxes due to the resolution of 1990 and 1991 income tax issues helped to offset the expense increases associated with the cost of developing Health Maintenance Organizations (HMOs) and system enhancements.

Net income attributable to participating policyholders before dividends was $138 million in 1997, compared to $122 million a year ago. Policyholder dividends were $133 million for 1997.

General fund and segregated fund assets in the United States increased 4% and 51%, respectively in 1997. The growth in segregated fund assets is the result of a combination of improved market values in equities and a large increase in fund deposits.

OPERATING EXPENSES

For the years ended December 31 (in $ millions)

	1997	1996	1995	1994	1993
Total Operating Expenses					
Human Resources	$ 276	$ 233	$ 219	$ 192	$ 160
Staff Benefits	45	38	38	33	29
Rent	46	42	37	34	31
Other	198	150	147	124	109
Total	$ 565	$ 463	$ 441	$ 383	$ 329
Year over year growth	22.0%	5.0%	15.2%	16.3%	–

EMPLOYEE BENEFITS

The Employee Benefits division provides a full range of employee benefit products to more than 9,500 employers across the United States. GWL&A offers employers the advantage of a total benefits solution – an integrated package of group life and disability insurance, managed care programs, 401(k) savings plans and flexible spending accounts. Through integrated pricing, administration, funding, and service, the Company helps employers provide cost-effective benefits that will attract and retain quality employees, and at the same time, help employees reach their personal goals by offering benefit choices, along with information needed to make appropriate choices.

During 1997, the Employee Benefits division experienced:

- significant growth in 401(k) assets under administration,
- increased sales and improved customer retention in group life and health,
- favorable mortality results, and
- license approval for five HMO subsidiaries, bringing the total to ten HMOs which are fully operational.

OPERATIONS SUMMARY *(Group life, health and disability products in total)*

(in $ millions)

	1997	1996	% Change
Sales (new annualized premium)			
Small/mid-sized	$ 281	$ 236	19%
Large	293	248	18%
Total	$ 574	$ 484	19%
Revenue Premium Income			
Small/mid-sized	$ 962	$ 984	(2%)
Large	2,534	2,349	8%
Annuities (401(k))	1,969	1,551	27%
Total	$ 5,465	$ 4,884	12%
Fee Income			
Self-funded	$ 422	$ 376	12%
Annuities	89	68	31%
Total	$ 511	$ 444	15%
Assets Under Administration			
Annuities (401(k))			
– Guaranteed funds	$ 337	$ 363	(7%)
– Variable funds	6,527	4,420	48%
– Third-party administration	672	395	70%
Total	$ 7,536	$ 5,178	46%

Overall, the financial results for 1997 have improved with 401(k) revenue premium increasing 27% to $2.0 billion. Assets under administration in 401(k) increased 46% over 1996, to $7.5 billion. Equivalent revenue premium income for group life and health increased 5%. Fee income increased 15% to $511 million due to sales and strong equity markets. Net income increased in 1997 due to favorable mortality and strong 401(k) asset growth.

The Employee Benefits division experienced strong sales growth during 1997 as 1,473 new group medical customers selected Great-West products increasing its membership by 121,622 individual members. Much of this growth can be attributed to the introduction of new HMOs in markets with high sales potential, and the Company's ability to offer a choice of managed care products. In addition, the number of 401(k) group customers increased by 925, increasing the number of individual 401(k) lives to 430,000 from 355,000 in 1996.

To position itself for the future, the Employee Benefits division is focused on putting in place the products, strategies and processes that will strengthen its competitive position in the evolving managed care environment. During 1997, the U.S. insurance industry continued a pattern of consolidation. The Company demonstrated its long-term commitment to the group life and health business by acquiring an additional 150 self-funded group customers (75,000 new members) through a marketing agreement with a Minneapolis third-party administrator.

With a heightened sensitivity to price comes the demand for more tightly managed care plans, which is why HMO development remains Employee Benefits' most important product development initiative. In 1997, the Company received state approval for HMOs in Massachusetts, Oregon, Washington, Ohio and Tennessee and applied for licenses in Florida, New Jersey, Indiana and North Carolina. The Company also entered into agreements with other insurance carriers, which will exclusively market the One Health Plan HMO in various states. These types of agreements will augment growth in GWL&A's HMO programs in the future.

The One Health Plan subsidiary organization is also playing a role in network contracting and administration, medical management, member services, and quality assurance for the Company's other managed care products. In addition to day-to-day operation of the HMO, each One Health Plan will administer Preferred Provider Organization (PPO) and Point-of-Service (POS) Plan provider networks for the Company and its joint-venture partner, The New England Life Insurance Company. This consolidation began in 1996 with the first five HMO initiatives, and will continue into 1998. In addition to economies of scale, this "pooling" of PPO, POS, and HMO membership benefits the Company in negotiating provider reimbursement arrangements, which leads to more competitive pricing.

The Company experienced an 8% increase in total membership, from 1,554,142 at the end of 1996 to 1,675,764 at year-end 1997. Gatekeeper (i.e., POS and HMO) members grew 18% from 350,185 in 1996 to 414,519 in 1997. The Company expects this segment of the business to grow as additional HMO licenses are obtained.

The number of new 401(k) case sales, including third-party administration business generated through the Company's marketing and administration arrangement with The New England Life Insurance Company increased to 1,235 in 1997 from 1,156 in 1996. This brings the total 401(k) block of business under administration to 5,695 employer groups and more than 430,000 individual participants.

During 1997, the in-force block of 401(k) business also performed well, with customer retention of 94%. This, combined with strong equity markets, resulted in a 46% increase in assets under management, to $7.5 billion.

In addition to GWL&A's internally-managed funds, the Company offers externally-managed funds from recognized mutual fund companies such as AIM, Fidelity, Putnam, and American Century. This strategy, supported by participant education efforts, is validated by the fact that 95% of assets contributed in 1997 were allocated to variable funds.

Pension Plan Specialist (PPS) services, which include drafting of plan documents, compliance testing, and completion of annual tax forms, were elected in an additional 900 cases in 1997. This brings the total in-force case count serviced by this in-house unit to over 2,000. In addition to offering employers the advantages of one-stop shopping, this program enables the Company and the employer to reduce costs associated with these services.

To promote long-term asset retention, the Company enhanced a number of products and services, including prepackaged "lifestyle" funds *(The Profile Series)*, "Account Credits" for high-balance accounts, a rollover IRA product, more effective enrollment communications, one-on-one retirement

planning assistance and personal plan illustrations. These efforts have led to a high level of customer satisfaction and customer retention in the Company's 401(k) business.

During 1997, the Company also introduced a Non-Qualified Deferred Compensation supplemental product to its 401(k) product. This product is designed for highly compensated employees who prefer to defer compensation on a pre-tax basis until retirement. The Company is funding the plan using mutual funds, which makes it attractive to participants and distinctive from the competition.

In 1998, the Company will continue to enhance managed care programs and services, further HMO development, seek National Committee for Quality Assurance (NCQA) accreditation, refine quality assurance programs and introduce member communications directed at health improvements. The Company will enhance the 401(k) product by placing more emphasis on improved enrollment strategies for the employer and on-line participant education.

FINANCIAL SERVICES

The Financial Services division develops, administers, and sells retirement savings and life insurance products and services for individuals and employees of state and local governments, non-profit hospitals and organizations, and public school districts.

During 1997, the Financial Services division experienced:

- significant growth in participants and segregated funds primarily attributable to Public/Non-Profit (P/NP) business,
- very good persistency in all lines of business, and
- strong sales of Bank Owned Life Insurance (BOLI).

OPERATIONS SUMMARY

(in $ millions)

	1997	1996	% Change
Savings			
Revenue premium income	$ 1,360	$ 779	75%
Fee income	70	43	63%
Assets under administration			
Individual annuities	$ 1,382	$ 1,420	(3)%
Group annuities	6,502	6,778	(4)%
Segregated funds	4,672	3,023	55%
Third-party administration	12,193	6,049	102%
Total	$ 24,749	$ 17,270	43%
Insurance			
Sales (new annualized premium)	$ 329	$ 275	20%
Revenue premium income	967	1,149	(16)%

Savings

The Financial Services division's core savings business is the P/NP pension market, providing investment products, administrative and communication services to employees of state and local governments (IRC Section 457 Deferred Compensation Plans), as well as employees of hospitals and public school districts (IRC Sections 403(b) and 401(k) Tax Deferred Annuities). The assets of the P/NP business, including segregated funds, increased 10% during 1997 to $10.7 billion. Much of the growth came from the variable annuity business which was driven by excellent sales results and strong investment returns in the equity markets.

The Financial Services division's retirement savings business experienced strong growth. The number of lives under administration increased by 181,700 in 1997, compared to a 79,466 increase in 1996. BenefitsCorp, the Company's wholly-owned communication and marketing subsidiary sold 13 new large employer cases and increased the penetration of existing cases by enrolling new employees.

The Financial Services division again experienced a very high retention rate in P/NP contract renewals in 1997. Part of this customer loyalty comes from initiatives to provide high-quality service while controlling expenses.

The Company continued to limit sales of Guaranteed Investment Contracts (GICs) and allow this block of business to contract in response to the highly competitive GIC market. As a result, GIC assets decreased 19% in 1997, to $585 million.

Customer demand for investment diversification continued to grow during 1997. New contributions to variable business represented 69% of the total 1997 premiums. The Company continues to expand the investment products available through its subsidiary mutual fund company, Maxim Series Fund, Inc., and partnership arrangements with external fund managers. Externally-managed funds offered to participants in 1997 included American Century, Ariel, Fidelity, Founders, INVESCO, Janus, Loomis Sayles, Templeton, T. Rowe Price and Vista. In 1997 the Company introduced Profile portfolios for its P/NP variable annuity products. The Profiles provide the convenience of pre-selected investment mixes based on varying degrees of risk tolerance. This array of funds allows customers to diversify their investments across a wide range of investment products, including fixed income, stock and international equity fund offerings.

Customer participation in guaranteed segregated funds increased as many customers prefer the security of government investments and segregated assets. Assets under management for guaranteed segregated funds exceeded $654 million in 1997, compared to $470 million in 1996.

Financial Services uses several distribution channels to reach P/NP markets, including independent marketing agencies and BenefitsCorp. Independent marketing agencies add value to product offerings by applying experience and expertise in implementing and managing retirement plans. BenefitsCorp provides an extensive menu of marketing services to more than 1,800 groups, including government entities, hospitals, and other non-profit organizations.

Financial Administrative Services Corporation (FASCorp), formed in 1993, is a wholly-owned subsidiary of GWL&A with the sole purpose of providing comprehensive administrative and recordkeeping services for financial institutions and employer-sponsored retirement plans. FASCorp administers records for approximately 9,200 groups at year-end 1997 versus 7,700 at year-end 1996, representing more than 1,000,000 participants (800,000 in 1996).

During the fourth quarter of 1996, the Company also initiated a marketing agreement with Charles Schwab & Co., Inc., to sell individual fixed and variable non-qualified deferred annuities. The variable annuity product offers 25 investment options, dollar cost averaging and rebalancing. The fixed product (guaranteed fund) offers guarantee period durations of one to ten years. Virtually all of the premium income has been variable, totalling $331 million in 1997, compared to the $12 million sold in late 1996.

Insurance

The Company continued its conservative approach to the manufacture and distribution of traditional life insurance products, while focusing on customer retention and expense management. Aggressive expense management and favorable individual life insurance customer retention helped improve unit costs in 1997.

Individual life insurance revenue premiums of $967 million in 1997 decreased 16% from 1996, due to the reduction of COLI premiums which resulted from changes in U.S. income tax laws.

As of year-end 1996, legislation was in place to phase out the tax deductibility of interest on policy loans for COLI products during 1997 and 1998. Although COLI sales were discontinued in 1996, renewal premiums totalled $337 million in 1997 compared to $577 million in 1996. The Company has shifted its emphasis from COLI to sales in the BOLI market. This product provides long-term benefits for bank employees and was not affected by the 1996 legislative changes. BOLI revenue premiums were $335 million during 1997, compared to $259 million in 1996. The Company continues working closely with existing COLI customers to determine the options available to them and is confident that the effect of the 1996 legislative changes will not be material to the Company's operations.

During 1998, the Company expects to continue its growth in the third-party administration area through its subsidiary company, FASCorp. Emphasis will also be placed on developing the institutional insurance and annuity markets. Improved communications will be provided to its customers in the public/non-profit market through the use of the Internet.

INVESTMENT OPERATIONS

The Federal Reserve Board increased the rate on federal funds by .25% to 5.50% in March of 1997 in an effort to slow the economy and keep downward pressure on inflation. Although economic growth accelerated during the course of the year, inflationary pressures declined as the year progressed. With inflation seemingly in control, rates declined in the second half of the year to finish at levels lower than year-end 1996.

U.S. TREASURY RATES

December 31

Term	1997	1996	1995
1 Year	5.5%	5.5%	5.1%
3 Year	5.7	6.0	5.2
5 Year	5.8	6.2	5.4
10 Year	5.8	6.4	5.6
30 Year	6.0	6.6	6.0

The economic crisis currently gripping most of Asia is expected to keep downward pressure on economic growth and inflation in the U.S. during 1998. In this environment, further downward pressure on interest rates is expected. Predicated on that outlook, management has initiated activities which better position the investment portfolio with securities that have more favorable return characteristics in a lower interest rate environment.

In spite of generally declining rates, the Company's overall investment portfolio earned a yield of 7.4% in 1997 and in 1996, with better returns on the mortgage portfolio offsetting the effect of lower rates on new investments.

This period of lower rates may tempt investors to take additional risks in an effort to increase yield. The Company, however, continues its program of acquiring quality assets, guided by conservative investment policies that include carefully defined industry, size and geographical diversification standards which reduce the Company's exposure to undue concentration of risk. One of the strategies inherent in the Company's program is the identification of various market niches and sectors which offer richer investment value than the market as a whole, while meeting Company investment policies.

The Company also maintains rigorous standards to control interest risk and observes strict asset and liability matching guidelines. These guidelines ensure that even under changing market conditions, the Company will meet the cash flows and income requirements of its liabilities. Through dynamic modeling, using state-of-the-art software to analyze the effects of a wide range of possible market changes on investments and policyholder benefits, the Company ensures that its investment portfolio is appropriately structured to fulfill all obligations to its policyholders.

General Funds

In 1997, funds available for investment and mortgages subject to renewal and rate adjustment totalled $2.8 billion, and were placed as follows:

- 3% in U.S. government and agency bonds,
- 79% in other bonds,
- 12% in mortgage renewals, and
- 6% in policy loans and other short-term investments.

The Company's new bond investments included not only publicly-traded securities, but also well-structured private placements which typically offer higher yields and better covenant protection than public bonds. The Company anticipates investment grade bonds will remain the largest component of its 1998 investment program.

As of December 31, 1997, approximately 89% of the Company's invested assets were cash, bonds or policy loans. The overall quality of the bond portfolio, the largest single component of the Company's invested assets, continues to be high, with 99% of the portfolio rated investment grade.

Approximately 43% of the bond portfolio is composed of structured assets. This asset category includes both asset-backed and mortgage-backed securities. The Company's strategy, related to these assets, is to focus on those with low volatility and minimal credit risk. The Company does not invest in collateralized mortgage obligations with higher risk profiles, and has no

ASSET DISTRIBUTION
December 31 (in $ millions)

	1997		1996	
Government bonds	$ 3,357	17%	$ 3,341	18%
Other bonds	9,932	50	9,370	49
Mortgages	1,883	10	2,158	11
Stocks & real estate	202	1	237	1
Subtotal portfolio investments	15,374		15,106	
Cash & certificates of deposit	319	2	204	1
Policy loans	4,022	20	3,682	20
Total invested assets	$ 19,715	100%	$ 18,992	100%

BOND PORTFOLIO QUALITY *(excludes $580 million short-term investments, $870 million in 1996)*
December 31 (in $ millions)

	1997		1996	
Estimated Rating				
AAA	$ 5,876	46%	$ 5,681	48%
AA	1,181	9	1,012	8
A	2,980	24	2,675	23
BBB	2,551	20	2,325	20
BB or lower	121	1	148	1
Total	$ 12,709	100%	$ 11,841	100%

plans to invest in such instruments in the future.

The aggregate amount of non-performing loans at December 31, 1997 was $53 million or 0.3% of portfolio investments, compared with $117 million or 0.8% at the end of 1996. These low levels reflect the Company's proactive management of potentially problematic accounts. Total allowances for credit losses were $132 million at year-end 1997, compared to $122 million at the end of 1996.

The U.S. equity portfolio consists primarily of the Denver home office, minimal other real estate, seed money in some of the Company's mutual funds and a small number of private equities. The Company anticipates a limited participation in real estate and the equity markets during 1998, and continues to stress variable funds for those policyholders wanting to invest in equities.

Segregated Funds

The 33% increase in the S&P 500 Index was among many reasons that investors in the U.S. continued to increase their participation in mutual funds during 1997. In response to this increased consumer desire, the Company continues to increase its offerings in the variable fund arena and to offer a broad selection of mutual and segregated funds. During 1997, such funds administered by the Company grew to $11.2 billion, compared with $7.4 billion at year-end 1996. Included in the December 31, 1997 balance is $6.3 billion of assets in Maxim and Orchard Funds, with 30 different portfolio offerings.

The Maxim and Orchard portfolios are composed of two money market funds, six managed fixed income funds, eight indexed equity funds, and fourteen managed equity funds. The goal of the index funds is to provide returns which approximate the returns of the comparable indexes. The remaining funds are targeted to meet or beat the returns of predetermined comparable indexes or other targets.

SEGREGATED FUND ASSETS

December 31 (in $ millions)

	1997	1996	1995	1994	1993
Maxim & Orchard Funds					
Equity funds	$ 4,702	$ 2,759	$ 1,764	$ 1,102	$ 819
Fixed-income funds	920	691	578	426	367
Money market fund	652	543	377	261	128
Total	6,274	3,993	2,719	1,789	1,314
Other internally-managed funds	693	583	491	380	146
Externally-managed funds	4,232	2,867	2,100	1,270	757
	$ 11,199	$ 7,443	$ 5,310	$ 3,439	$ 2,217
Year over year growth	50.5%	40.2%	54.4%	55.1%	–

LIQUIDITY

The liquidity needs of the United States segment of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Over 70% of policy liabilities are non-cashable prior to maturity, or subject to market value adjustments or withdrawal penalties.

At December 31, 1997, the United States segment of the Company has repurchase agreements with third-party broker-dealers of $606 million compared with $823 million at December 31, 1996, and a commercial paper program with an outstanding balance of $77 million, compared with $116 million at December 31, 1996.

Additional liquidity is available through established lines of credit and through the demonstrated ability of the United States segment of the Company to access the capital markets.

LIQUID ASSETS – UNITED STATES OPERATIONS – GENERAL FUNDS

December 31 (in $ millions)

	1997		1996	
	Balance Sheet Value	Market Value	Balance Sheet Value	Market Value
Cash & short-term investments	$ 319	$ 319	$ 204	$ 204
Highly marketable securities				
– Government bonds	3,357	3,408	3,341	3,343
– Corporate bonds	5,584	5,703	5,584	5,642
– Common/Preferred shares	57	65	50	55
Total	$ 9,317	$ 9,495	$ 9,179	$ 9,244

LIABILITY CHARACTERISTICS – UNITED STATES OPERATIONS

December 31 (in $ millions)

	1997		1996	
	Book Value	Liquidity Need	Book Value	Liquidity Need
Policies non-cashable prior to maturity or subject to market value adjustment	$ 12,240	LOW	$ 12,171	LOW
Policies with surcharges	2,911	LOW	2,352	LOW
Policies with no surcharges	1,914	HIGH	1,798	HIGH
Total	$ 17,065		$ 16,321	

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with generally accepted accounting principles including the requirements of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The financial statements necessarily include amounts that are based on management's best estimate due to dependency on subsequent events. These estimates are based on careful judgements and have been properly reflected in the financial statements. In the opinion of management the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that the financial information produced is relevant and reliable.

The consolidated financial statements were approved by the Board of Directors which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company. The function of the Audit Committee is to:

- Review the quarterly and annual financial statements and recommend them for approval to the Board of Directors.
- Review the systems of internal control and security.
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors.
- Review other audit, accounting, financial and security matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to Section 165(2)(i) of the Insurance Companies Act Canada, appoints the Actuary who is:

- Responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- Required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion, which is presented following the financial statements.
- Required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the company until December 31, 2001, under adverse economic and business conditions.

Deloitte & Touche, Chartered Accountants, as the Company's appointed external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders, Shareholders and Directors is presented following the financial statements. Their opinion is based upon an examination conducted in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements are free of material misstatement and present fairly the financial position of the Company in accordance with generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

RAYMOND L. McFEETORS
President and Chief Executive Officer

WILLIAM W. LOVATT
Senior Vice-President,
Chief Financial Officer, Canada

MITCHELL T.G. GRAYE
Senior Vice-President,
Chief Financial Officer, United States

January 28, 1998

SUMMARY OF CONSOLIDATED OPERATIONS

For the years ended December 31

(in millions of dollars except earnings per common share)

	1997	1996
Income		
Premium income	$ 4,587	$ 3,532
Net investment income	2,184	1,981
Fee and other income	705	567
	7,476	6,080
Benefits and Expenses		
Policyholder benefits	5,325	4,109
Increase in actuarial liabilities	90	263
Policyholder dividends and experience refunds	308	242
Total paid or credited to policyholders	5,723	4,614
Commissions	296	263
Operating expenses	861	669
Premium taxes	71	68
Provision for integration costs	250	–
Net operating income before income taxes	275	466
Income taxes – current	105	197
– future	(78)	(48)
Net income before minority shareholders' interest	$ 248	$ 317
Minority shareholders' interest of London Insurance Group		
Preferred shareholder dividends	2	–
Minority shareholders' interest	–	–
	2	–
Net income	$ 246	$ 317
Earnings per common share *(note 10)*	$ 112.23	$ 135.62

	1997	1996
Summary of Net Income		
Attributable to participating policyholders		
Net income before policyholder dividends	$ 239	$ 199
Policyholder dividends	257	186
Net income – participating policyholders	$ (18)	$ 13
Attributable to shareholders		
Preferred shareholder dividends	$ 34	$ 33
Net income – common shareholders	230	271
	$ 264	$ 304
Net income	$ 246	$ 317

CONSOLIDATED BALANCE SHEET

December 31

(in millions of dollars)

	1997	1996
Assets		
Bonds *(note 4)*	$ 28,306	$ 17,641
Mortgage loans *(note 4)*	10,902	3,972
Stocks *(note 4)*	790	693
Real estate *(note 4)*	1,440	636
Loans to policyholders	5,153	3,856
Cash and certificates of deposit	887	230
Funds withheld by ceding insurers	939	–
Premiums in course of collection	409	201
Interest due and accrued	644	406
Future income taxes *(note 13)*	311	143
Goodwill	1,721	–
Other assets	567	221
General funds assets	$ 52,069	$ 27,999
Segregated funds assets	$ 22,162	$ 12,342

Approved by the Board

J W Burns

Director

Director

	1997	1996
Liabilities		
Policy liabilities		
Actuarial liabilities *(note 6)*	$ 39,045	$ 21,817
Provision for claims	572	505
Provision for policyholders' dividends	305	71
Provision for experience rating refunds	194	171
Policyholders' funds	1,975	620
	42,091	23,184
Commercial paper and other loans *(note 7)*	811	116
Current income taxes	249	130
Other liabilities	1,886	896
Repurchase agreements	708	823
Net deferred gains on portfolio investments sold *(note 4)*	1,281	322
	47,026	25,471
Minority shareholders' interest *(note 8)*	285	–
Policyholders' and Shareholders' Equity		
Participating policyholders' surplus	1,247	460
Capital stock *(note 9)*	1,794	457
Shareholders' surplus	1,560	1,513
Provision for unrealized gain on translation of net investment in foreign operations		
Participating policyholders	17	11
Shareholders	140	87
	4,758	2,528
Total general funds liabilities, policyholders' and shareholders' equity	$ 52,069	$ 27,999
Segregated funds	$ 22,162	$ 12,342

CONSOLIDATED STATEMENT OF SURPLUS

For the years ended December 31

(in millions of dollars)

	1997	1996
Participating Policyholders		
Balance, beginning of year		
As previously reported	$ 460	$ 447
Change in accounting policies *(note 3)*	(15)	–
As restated	445	447
London Insurance Group at date of acquisition *(note 2)*	820	–
Net income	(18)	13
Balance, end of year	$ 1,247	$ 460
Shareholders		
Balance, beginning of year		
As previously reported	$ 1,513	$ 1,350
Change in accounting policies *(note 3)*	(42)	–
As restated	1,471	1,350
Net income	264	304
Share issue expense	(2)	–
Dividends to shareholders		
Preferred shareholders	(34)	(33)
Common shareholders	(139)	(108)
Balance, end of year	$ 1,560	$ 1,513

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31

(in millions of dollars)

	1997	1996
Operations		
Net income before minority shareholders' interest	$ 248	$ 317
Non-cash charges		
Increase in policy liabilities	73	256
Future income taxes	(133)	(48)
Amortization of goodwill	8	–
Other	(177)	40
	19	565
Financing Activities		
Issue of common shares	948	–
Issue of preferred shares	569	–
Commercial paper and other loans	(311)	(4)
Redemption of preferred shares	(312)	(12)
Share issue expenses	(2)	–
Dividends paid	(167)	(142)
	725	(158)
Investment Activities		
Bond sales and maturities	12,419	12,098
Mortgage loan repayments	706	631
Stock sales	1,578	230
Real estate sales	68	12
Decrease in repurchase agreements	(142)	(113)
Policy loan repayments	287	286
Investment in London Insurance Group	(2,946)	–
Investment in bonds	(12,744)	(12,225)
Investment in mortgage loans	(282)	(261)
Investment in stocks	(330)	(307)
Investment in real estate	(38)	(46)
Policy loan advances	(465)	(684)
	(1,889)	(379)
Increase (decrease) in cash and certificates of deposit	(1,145)	28
Cash and certificates of deposit, beginning of year	230	202
London Insurance Group – cash and certificates of deposit at date of acquisition	1,802	–
Cash and certificates of deposit, end of year	$ 887	$ 230

SEGREGATED FUNDS – CONSOLIDATED ASSETS

December 31

(in millions of dollars)

	1997	1996
Bonds	$ 5,576	$ 3,254
Mortgage loans	872	440
Stocks	14,773	8,382
Real estate	415	226
Cash and certificates of deposit	416	73
Income due and accrued	79	43
Other miscellaneous assets (liabilities)	31	(76)
	$ 22,162	$ 12,342

SEGREGATED FUNDS – CONSOLIDATED STATEMENT OF CHANGES IN ASSETS

For the years ended December 31

(in millions of dollars)

	1997	1996
Segregated funds assets - January 1	$ 12,342	$ 9,264
Additions (deductions):		
Policyholders' deposits	4,495	3,006
Net investment income	948	447
Net realized capital gains on investments	1,121	310
Net unrealized capital gains on investments	(39)	695
Unrealized gains (losses) due to change in current exchange rates	472	55
Other	(7)	–
London Insurance Group at date of acquisition *(note 2)*	4,650	–
Policyholders' withdrawals	(1,820)	(1,435)
	$ 9,820	$ 3,078
Segregated funds assets - December 31	$ 22,162	$ 12,342

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ amounts in millions of dollars unless otherwise noted)

1. Basis of Presentation and Summary of Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada and include the accounts of its subsidiary companies. The principal subsidiaries are:

London Insurance Group
Great-West Life & Annuity Insurance Company
GWL Properties Inc.
GWL Investment Management Ltd.
GWL Realty Advisors Inc.

The significant accounting policies are as follows:

(a) Portfolio Investments

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

Investments in stocks (equity securities) are carried at cost plus a moving average market value adjustment of $13 million ($28 million in 1996). The carrying value is adjusted towards market value at a rate of 15% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 15% per annum on a declining balance basis. Market values for public stocks are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for stocks for which there is no active market, are determined by management.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $37 million ($39 million in 1996). The carrying value is adjusted towards market value at a rate of 10% per annum. Net realized gains and losses are included in Net Deferred Gains on Porfolio Investments Sold and are deferred and amortized to income at 10% per annum on a declining balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

(b) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset and liability positions within guidelines which prohibit their use for speculative trading purposes.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position.

(c) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Certain cross-currency swap contracts are a partial hedge of the Company's total net investment in its United States operation. The provision for unrealized gain of $157 million ($98 million in 1996) on foreign currency translation of the Company's net investment in its foreign operations is net of the after tax effect of any offsetting gains and losses on instruments designated as hedges, and is recorded separately on the Consolidated Balance Sheet.

The Company has entered into certain daily average rate forward exchange contracts to manage volatility associated with the translation of its United States operations into Canadian dollars. Net realized foreign exchange gains and losses are included in investment income.

1. *Basis of Presentation and Summary of Accounting Policies (cont'd)*

(d) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance, are fully secured by the cash surrender values of the policies and have effective interest rates ranging from 5% to 8% (1996 - 5% to 8%).

(e) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries. Goodwill is amortized on a straight-line basis over its useful life but not exceeding periods of 40 years. The Company evaluates the carrying amount of goodwill through projections of future earnings and non discounted estimated cash flows of the related subsidiaries. Goodwill is written down when impaired and the amortization periods are revised if it is estimated that the remaining period of benefit has changed. Amortization of goodwill charged to operations during the year was $8 million.

(f) Income Taxes

Income taxes are accounted for in accordance with the new CICA Handbook Section 3465. Current income taxes are based on taxable income and future income taxes are based on taxable timing differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted at the balance sheet date.

(g) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(h) Shareholders' Portion of Participating Earnings

Shareholders' portion of participating earnings represents, as restricted by law, a portion of net income before policyholder dividends of the participating account.

(i) Pension Plans and Other Post Retirement Benefits

The Company maintains contributory and non-contributory defined benefit pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings. The current cost of pension benefits is charged to earnings. Adjustments arising from plan amendments or experience gains or losses are amortized over the expected average remaining service life of the employee/agent group.

The Company also provides post retirement health and life insurance benefits to eligible employees, agents and their dependents, the cost of which are recognized as incurred.

(j) Geographic Segmentation

The Company has significant operations in Canada and the United States. Operations in other countries are reported with the Canadian operations.

(k) Comparative Figures

Certain of the 1996 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

2. Acquisition of London Insurance Group

During November and December of 1997 the Company purchased 100% of the issued and outstanding common shares of London Insurance Group for a total consideration of $2,946 million including acquisition costs, made up of a combination of $1,829 million cash, $569 million preferred shares and $548 million common shares. The effective date of the acquisition was November 13, 1997 and the transaction was completed on December 23, 1997. The principal operations of London Insurance Group and its subsidiaries consist of individual insurance, group life and health insurance, reinsurance, property and casualty insurance, group and individual retirement products, segregated funds and mutual funds. The acquisition has been accounted for by the purchase method and is summarized as follows:

	Participating Policyholders	Shareholders	Total
Value of Assets Acquired			
Cash and certificates of deposit	$ 756	$ 1,046	$ 1,802
Bonds	4,011	5,476	9,487
Mortgage loans	2,644	4,688	7,332
Stocks	843	236	1,079
Real estate	700	236	936
Loans to policyholders	936	14	950
Funds withheld by ceding insurers	–	556	556
Other assets	186	632	818
	10,076	12,884	22,960
Value of Liabilities Assumed			
Policy liabilities	8,302	9,823	18,125
Commercial paper and other loans	241	785	1,026
Income taxes payable	75	132	207
Net deferred gains on portfolio investments sold	478	95	573
Other liabilities	150	377	527
Minority interests	10	33	43
Participating policyholders' surplus	820	–	820
Preferred shares	–	400	400
	$ 10,076	$ 11,645	$ 21,721
Fair Value of Net Assets Acquired			1,239
Goodwill			1,707
Total Purchase Consideration			$ 2,946

The amounts assigned to the assets and liabilities acquired and associated goodwill may be adjusted when the allocation process has been finalized in 1998. The goodwill has been allocated to the shareholder account and is being amortized over a period not exceeding 30 years.

The participating policyholders provided $220 million of the transaction financing by prepaying the present value of expected expense savings, net of integration costs, resulting from the business combination. This financing transaction will be amortized by the participating and shareholder accounts over periods not exceeding 30 years.

The results of the acquired businesses have been included in these financial statements from November 14, 1997. Estimated integration costs of $250 million ($82 million participating, $168 million shareholders) are associated with the acquisition and have been included in the Summary of Consolidated Operations. At December 31, 1997, $243 million of the integration costs remain accrued and are included in other liabilities.

The following outlines the impact on the Company's consolidated financial statements of the acquisition of London Insurance Group for the year ended December 31, 1997:

	Great-West Life Excluding London	London Acquisition	Consolidation Adjustments	Great-West Life Consolidated
Income	$ 6,050	$ 1,441	$ (15)	$ 7,476
Net income before provision for integration costs				
– attributable to participating policyholders	$ 17	$ 12	$ –	$ 29
– attributable to shareholders	$ 353	$ 14	$ (8)	$ 359
Net income				
– attributable to participating policyholders	$ 13	$ (31)	$ –	$ (18)
– attributable to shareholders	$ 300	$ (28)	$ (8)	$ 264
Earnings per common share before provision for integration costs	$ 155.76	$ 6.59	$ (3.72)	$ 158.63
Earnings per common share	$ 129.86	$ (13.91)	$ (3.72)	$ 112.23
General Funds Assets	$ 30,703	$ 22,612	$ (1,246)	$ 52,069
Liabilities	$ 26,733	$ 20,314	$ (21)	$ 47,026
Minority shareholders' interests	–	285	–	285
Participating policyholders surplus	476	788	–	1,264
Shareholders' capital and surplus	3,494	1,225	(1,225)	3,494
	$ 30,703	$ 22,612	$ (1,246)	$ 52,069

In addition to the above, the Company acquired London Insurance Group's segregated fund business with net assets of $4,600 million and mutual fund business with assets of $695 million at December 31, 1997.

3. Change in Accounting Policies

(a) During the year the Company adopted the requirements of the new CICA Handbook section on Income Taxes, the major impact of which is the non discounting of future income taxes. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements. As a result of this change, participating policyholders' opening surplus was reduced by $1 million, shareholders' opening surplus was reduced by $11 million, future income taxes receivable were increased by $22 million and actuarial liabilities were increased by $34 million.

(b) In order to comply with Accounting Guideline # 9 issued by the CICA in 1997, during the year the Company:

(i) wrote down the carrying value of the real estate portfolio by $75 million as the decline in value was determined to be other than temporary when considered separately from the equity portfolio. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements. As a result of this change, participating policyholders' opening surplus was reduced by $7 million, shareholders' opening surplus was reduced by $38 million and future income taxes receivable were increased by $30 million.

(ii) adopted the accrual method of determining the portion of the operating income of participating policyholders to which shareholders are entitled. This change in accounting policy has been applied retroactively with no restatement of prior years' financial statements. As a result of this change, participating policyholders' opening surplus was reduced by $7 million and shareholders' opening surplus was increased by $7 million.

4. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

1997

		Balance Sheet Value			Market Value
		Canada	United States	Total	Total
Bonds	– government	$ 6,655	$ 3,357	$ 10,012	$ 10,250
	– corporate	8,362	9,932	18,294	19,081
		15,017	13,289	28,306	29,331
Mortgage loans	– residential	5,613	313	5,926	5,962
	– retail and shopping centres	1,215	568	1,783	1,945
	– office buildings	1,035	537	1,572	1,643
	– industrial	990	250	1,240	1,296
	– other	166	215	381	443
		9,019	1,883	10,902	11,289
Stocks	– public	457	–	457	465
	– private	274	59	333	332
		731	59	790	797
Real estate		1,297	143	1,440	1,542
		$ 26,064	$ 15,374	$ 41,438	$ 42,959

1996

		Balance Sheet Value			Market Value
		Canada	United States	Total	Total
Bonds	– government	$ 1,727	$ 3,341	$ 5,068	$ 5,194
	– corporate	3,203	9,370	12,573	13,087
		4,930	12,711	17,641	18,281
Mortgage loans	– residential	582	408	990	1,021
	– retail and shopping centres	463	639	1,102	1,162
	– office buildings	369	575	944	1,003
	– industrial	273	283	556	576
	– other	127	253	380	437
		1,814	2,158	3,972	4,199
Stocks	– public	454	–	454	562
	– private	188	51	239	237
		642	51	693	799
Real estate		450	186	636	614
		$ 7,836	$ 15,106	$ 22,942	$ 23,893

(b) The significant terms and conditions and interest rate risk of applicable fixed-term portfolio investments gross of provisions, are as follows:

	1997					
	Carrying Value					
	Term to Maturity					
	1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	Effective Interest Rate Ranges
Short-term bonds	$ 1,251	$ –	$ –	$ 1,251	$ 1,256	3.8%-6.5%
Bonds	2,751	9,116	15,208	27,075	28,500	3.5%-16.4%
Mortgage loans	2,044	5,921	3,091	11,056	10,948	3.3%-15.5%
	$ 6,046	$ 15,037	$ 18,299	$ 39,382	$ 40,704	
Geographic						
Canada	$ 3,409	$ 8,507	$ 12,162	$ 24,078	$ 25,138	3.5%-16.4%
United States	2,637	6,530	6,137	15,304	15,566	4.0%-12.9%
	$ 6,046	$ 15,037	$ 18,299	$ 39,382	$ 40,704	

	1996					
	Carrying Value					
	Term to Maturity					
	1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	Effective Interest Rate Ranges
Short-term bonds	$ 1,204	$ –	$ –	$ 1,204	$ 1,210	2.9%-6.1%
Bonds	2,012	6,927	7,511	16,450	17,670	3.3%-13.8%
Mortgage loans	982	2,198	936	4,116	4,173	4.8%-14.0%
	$ 4,198	$ 9,125	$ 8,447	$ 21,770	$ 23,053	
Geographic						
Canada	$ 1,401	$ 2,576	$ 2,804	$ 6,781	$ 7,899	2.9%-14.0%
United States	2,797	6,549	5,643	14,989	15,154	4.0%-12.9%
	$ 4,198	$ 9,125	$ 8,447	$ 21,770	$ 23,053	

(c) Included in portfolio investments are the following:

(i) Non-performing loans:

	1997	1996
Asset Class		
Bonds	$ 9	$ 11
Mortgage loans	79	84
Foreclosed real estate	65	125
	$ 153	$ 220
Geographic		
Canada	$ 100	$ 103
United States	53	117
	$ 153	$ 220

Non-performing loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine non-performing status. Loans are classified as non-accrual when:

(1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or

(2) the Company no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or

(3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

4. *Portfolio Investments (cont'd)*

(ii) Allowance for credit losses:

	1997	1996
Asset Class		
Bonds	$ 20	$ 13
Mortgage loans	154	144
Foreclosed real estate	1	9
	$ 175	$ 166
Geographic		
Canada	$ 43	$ 44
United States	132	122
	$ 175	$ 166

(iii) Changes in the allowance for credit losses are as follows:

	1997	1996
Balance – beginning of year	$ 166	$ 165
Provision for credit losses – normal	26	35
– cyclical	(8)	(11)
Recoveries of prior write-offs	5	6
Write-offs – modified/restructured loans	(5)	(2)
Write-offs – other loans	(25)	(28)
London Insurance Group at date of acquisition	11	–
Other – including foreign exchange rate changes	5	1
Balance – end of year	$ 175	$ 166

The allowance for credit losses includes general provisions, established at a level that together with the provision for future credit losses included in actuarial liabilities, reflects the Company's estimate of potential future credit losses.

(d) Investments in real estate include an asset value allowance which provides for deterioration of market values associated with real estate held for investment.

	1997	1996
Canada	$ 38	$ 32
United States	–	–
	$ 38	$ 32

(e) Also included in portfolio investments are modified/restructured loans that are performing in accordance with their current terms.

	1997	1996
Canada	$ 117	$ 24
United States	307	304
	$ 424	$ 328

(f) Net investment income of $2,184 million ($1,981 million in 1996) includes amortization of net deferred realized gains (losses) on portfolio investments and unrealized gains and losses on stocks and real estate as follows:

	1997		
	Canada	United States	Total
Bonds	$ 44	$ 89	$ 133
Mortgage loans	2	8	10
Stocks	45	42	87
Real estate	(4)	(82)	(86)
	$ 87	$ 57	$ 144

	1996		
	Canada	United States	Total
Bonds	$ 23	$ 23	$ 46
Mortgage loans	1	4	5
Stocks	30	7	37
Real estate	(7)	(9)	(16)
	$ 47	$ 25	$ 72

(g) The balance of net deferred gains (losses) on portfolio investments sold is comprised of the following:

	1997		
	Canada	United States	Total
Bonds	$ 652	$ 65	$ 717
Mortgage loans	4	1	5
Stocks	539	4	543
Real estate	16	–	16
	$ 1,211	$ 70	$ 1,281

	1996		
	Canada	United States	Total
Bonds	$ 146	$ 129	$ 275
Mortgage loans	3	8	11
Stocks	63	38	101
Real estate	17	(82)	(65)
	$ 229	$ 93	$ 322

During 1997, certain United States net deferred gains were recognized related to disinvestments of lines of business transferred via assumption reinsurance agreements.

5. Pledging of Assets

The amount of assets which have a security interest by way of pledging are outlined below by major pledging activity:

	1997		
	Canada	United States	Total
Derivative transactions	$ 1	$ 1	$ 2
In respect of repurchase agreements	97	–	97
In respect of real estate	5	–	5
In respect of reinsurance agreements	445	–	445
	$ 548	$ 1	$ 549

	1996		
	Canada	United States	Total
Derivative transactions	$ –	$ 1	$ 1

6. Actuarial Liabilities

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

1997

		Participating Policyholders		Non-Participating Policyholders		
		Canada	United States	Canada	United States	Total
Individual	– Life	$ 7,579	$ 5,431	$ 556	$ 2,471	$ 16,037
	– Annuity	89	6	5,820	1,376	7,291
	– Health	xxx	xxx	155	17	172
Group	– Life	xxx	xxx	504	186	690
	– Annuity	39	9	2,700	6,830	9,578
	– Health	167	xxx	1,947	177	2,291
Reinsurance		xxx	xxx	2,974	–	2,974
Property & casualty		xxx	xxx	12	–	12
Total		$ 7,874	$ 5,446	$ 14,668	$ 11,057	$ 39,045

1996

		Participating Policyholders		Non-Participating Policyholders		
		Canada	United States	Canada	United States	Total
Individual	– Life	$ 964	$ 4,553	$ 203	$ 2,430	$ 8,150
	– Annuity	6	6	2,260	1,402	3,674
	– Health	xxx	xxx	139	16	155
Group	– Life	xxx	xxx	232	166	398
	– Annuity	16	9	1,434	7,029	8,488
	– Health	xxx	xxx	812	140	952
Total		$ 986	$ 4,568	$ 5,080	$ 11,183	$ 21,817

(ii) The composition of assets supporting liabilities and surplus is as follows:

1997

		Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total
Balance Sheet Value							
Participating	– Life	$ 6,556	$ 2,756	$ 68	$ 2	$ 3,628	$ 13,010
	– Annuity	90	44	2	–	7	143
	– Health	149	5	–	–	13	167
Non-Participating	– Life	2,120	421	59	7	1,110	3,717
	– Annuity	10,222	5,961	195	24	324	16,726
	– Health	1,639	603	23	–	31	2,296
Reinsurance		1,756	–	35	–	1,183	2,974
Property & casualty		12	–	–	–	–	12
Other		3,378	875	962	475	2,576	8,266
Capital and surplus		2,384	237	(554)	932	1,759	4,758
Total Balance Sheet Value		$ 28,306	$ 10,902	$ 790	$ 1,440	$ 10,631	$ 52,069
Geographic							
Canada		$ 15,017	$ 9,019	$ 731	$ 1,297	$ 5,342	$ 31,406
United States		13,289	1,883	59	143	5,289	20,663
		$ 28,306	$ 10,902	$ 790	$ 1,440	$ 10,631	$ 52,069
Fair Value		$ 29,331	$ 11,289	$ 797	$ 1,542	$ 10,631	$ 53,590
Geographic							
Canada		$ 15,700	$ 9,360	$ 732	$ 1,396	$ 5,342	$ 32,530
United States		13,631	1,929	65	146	5,289	21,060
		$ 29,331	$ 11,289	$ 797	$ 1,542	$ 10,631	$ 53,590

	1996					
	Bonds	Mortgage Loans	Stocks	Real Estate	Other	Total
Balance Sheet Value						
Participating – Life	$ 2,219	$ 251	$ 10	$ 3	$ 3,034	$ 5,517
– Annuity	27	7	1	–	2	37
Non–Participating – Life	1,749	238	34	16	994	3,031
– Annuity	8,901	2,671	171	19	363	12,125
– Health	760	251	(4)	(1)	101	1,107
Other	2,729	221	33	78	593	3,654
Capital and surplus	1,256	333	448	521	(30)	2,528
Total Balance Sheet Value	$ 17,641	$ 3,972	$ 693	$ 636	$ 5,057	$ 27,999
Geographic						
Canada	$ 4,930	$ 1,814	$ 642	$ 450	$ 325	$ 8,161
United States	12,711	2,158	51	186	4,732	19,838
	$ 17,641	$ 3,972	$ 693	$ 636	$ 5,057	$ 27,999
Fair Value	$ 18,281	$ 4,199	$ 799	$ 614	$ 5,057	$ 28,950
Geographic						
Canada	$ 5,387	$ 1,999	$ 744	$ 428	$ 325	$ 8,883
United States	12,894	2,200	55	186	4,732	20,067
	$ 18,281	$ 4,199	$ 799	$ 614	$ 5,057	$ 28,950

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

The carrying value of assets backing actuarial liabilities plus the portion of deferred gains associated with actuarial liabilities is $39,772 million. The fair value of these assets is $41,024 million.

(b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, annuity reserves and London Life's group life and health claim reserves have been established using cash flow valuation techniques. All other reserves have been determined using the policy premium method.

(c) Changes in Actuarial Liabilities

The change in actuarial liabilities is as follows:

	Participating Policyholders		Non-Participating Policyholders		Total	
	1997	1996	1997	1996	1997	1996
Balance – beginning of year	$ 5,554	$ 4,877	$ 16,263	$ 16,560	$ 21,817	$ 21,437
Accounting policy change – income taxes *(note 3)*	(4)	–	38	–	34	–
Normal change – new business	(3)	4	1,174	629	1,171	633
– in force	806	638	(1,887)	(1,068)	(1,081)	(430)
Material assumption changes	–	–	–	60	–	60
Foreign exchange rate changes	228	35	464	82	692	117
London Insurance Group at date of acquisition	6,739	–	9,673	–	16,412	–
Balance – end of year	$ 13,320	$ 5,554	$ 25,725	$ 16,263	$ 39,045	$ 21,817

In 1996 assumption changes resulted in an increase in actuarial liabilities for United States group annuity lines.

6. Actuarial Liabilities (cont'd)

(d) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that reserves are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually, by country, for Canada and the United States. The results of this study are analyzed and used to update the Company's experience valuation mortality table for life insurance. Where there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality rate. Although mortality improvements have been observed for many years, no improvements have been assumed for life insurance valuation.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Investment Returns – The assets which correspond to the different liability categories are segmented. From each segment current returns together with reinvestment assumptions are used to derive interest rates to value future events. These interest rates are reduced to provide for projected asset default losses and reinvestment risk. For the cash flow valuation technique, actual asset and liability future cash flows are used in determining the policy liability amounts.

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future cost for the liability type being valued. Expense improvements are not projected. An inflation assumption consistent with the investment return is incorporated in the estimate of future cost.

Policy Termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. The Company has reflected the emerging trend of lower lapsation on lapse supported benefits in its reserves.

Policyholder Dividends – Policyholder dividends are included in future policy benefits at the current scale of policyholder dividends. The Actuary has assumed that policyholder dividends will be changed from the current scale to reflect any differing operating experience of the participating account in future years.

(e) Risk Management

(i) *Interest rate risk* – Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining investment yield in order to incorporate reinvestment risk in the actuarial valuation.

(ii) *Credit risk* – Credit risk is managed through an emphasis of quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards. Projected investment returns are reduced to provide for future credit losses on currently held assets. The net effective yield rate reduction averaged .20% in Canada and .13% in the United States.

The following outlines the provision for future credit losses on the assets backing actuarial liabilities included in actuarial liabilities which are in addition to the allowance for asset losses included with assets:

	Participating Policyholders		Non-Participating Policyholders		
	Canada	United States	Canada	United States	Total
December 31, 1997	$ 139	$ 16	$ 109	$ 68	$ 332
December 31, 1996	$ 17	$ 15	$ 68	$ 103	$ 203

(iii) *Reinsurance risk* – Large amount claim risk for life and health insurance is controlled by having reinsurance in place for claims over specified maximum benefit amounts (which vary by line of business but do not exceed $5 million for any line) and by having catastrophic accident coverage in place covering up to $200 million of claims from a single event.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	Participating Policyholders		Non-Participating Policyholders		
	Canada	United States	Canada	United States	Total
December 31, 1997	$ 5	$ 19	$ 322	$ 117	$ 463
December 31, 1996	$ (1)	$ 18	$ 17	$ 76	$ 110

(iv) *Foreign exchange risk* – If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) *Liquidity risk* – Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Over 60% of policyholder liabilities are non-cashable prior to maturity, or subject to market value adjustments or withdrawal penalties.

(f) Sensitivity of Actuarial Assumptions

The actuarial assumption most susceptible to change in the short term is future investment returns. Based on the projected cash flows of the Company as of December 31, 1997, the approximate after tax impact of an immediate 1% increase in the general level of interest rates applied to actuarial liabilities and associated assets would be to increase the fair value of surplus by $48 million. The impact of an immediate 1% decrease would decrease the fair value of surplus by $46 million.

7. Commercial Paper and Other Loans

Commercial paper and other loans consist of the following:

	1997			
	Balance Sheet Value			Fair Value
	Canada	United States	Total	Total
Short-Term				
Commercial paper and other short-term borrowings with interest rates from 3.8% to 6.1%	$ 221	$ 77	$ 298	$ 298
Long-Term				
Operating:				
First mortgages secured by real estate and limited recourse mortgages at interest rates from 5.1% to 11.6% maturing at various dates to 2012	285	–	285	307
Long-term reinsurance debt at interest rates from 5.8% to 7.8% maturing at various dates to 2004	76	–	76	76
Other notes payable at interest rates from 4.3% to 9.0%	41	–	41	44
Subtotal	402	–	402	427
Capital:				
9.375% Senior debentures due Jan. 8, 2002, unsecured	100	–	100	114
6.875% Senior debentures due Sept. 15, 2005, unsecured (U.S. $7)	11	–	11	11
Subtotal	111	–	111	125
Total	$ 734	$ 77	$ 811	$ 850
Interest expense on long-term loans	$ 5	$ –	$ 5	

7. *Commercial Paper and Other Loans (cont'd)*

	1996			
	Balance Sheet Value			Fair Value Total
	Canada	United States	Total	
Short-Term				
Commercial paper and other short-term borrowings with interest rates from 5.2% to 5.9%	$ –	$ 116	$ 116	$ 116

Principal Repayments of Long-Term Loans	Operating	Capital	Total
1998	$ 25	$ –	$ 25
1999	32	–	32
2000	26	–	26
2001	15	–	15
2002	85	100	185
2003 and thereafter	219	11	230
	$ 402	$ 111	$ 513

8. Minority Shareholders' Interests

The equity interest of The Great-West Life Assurance Company in London Insurance Group was 100% at December 31, 1997. The non-controlling interests of London Insurance Group and its subsidiaries are:

	1997	1996
Preferred shareholders	250	–
Minority interests in capital stock and surplus	35	–
	$ 285	$ 0

9. Capital Stock

		1997	1996
Authorized			
	Unlimited Preferred Shares		
	Unlimited Common Shares		
Issued and outstanding:			
–	Series A, 7.70% Cumulative Preferred Shares	$ –	$ 2
–	Series D, 5.46% United States dollar Cumulative Perpetual Preferred Shares	–	70
–	Series E, 7.125% United States dollar Cumulative Perpetual Preferred Shares	–	35
–	Series F, 4.81% Cumulative Perpetual Preferred Shares	–	42
–	Series G, 4.83% Cumulative Perpetual Preferred Shares	–	12
4,000,000	Series H, 7.50% Non-Cumulative Perpetual Preferred Shares	100	100
2,000,000	Series I, 7.50% Non-Cumulative Preferred Shares	50	50
1,000,000	Series J, 7.50% Non-Cumulative Perpetual Preferred Shares	25	25
4,000,000	Series K, 7.25% Non-Cumulative Perpetual Preferred Shares	100	100
17,995,505	Series L, 5.20% Non-Cumulative Preferred Shares	450	–
4,772,468	Series N, 5.00% Non-Cumulative Preferred Shares	119	–
	Provision for unrealized gains on translation of United States currency preferred shares	–	19
2,370,948	Common Shares	950	2
		$ 1,794	$ 457

The Series D and E shares were redeemed by the Company on December 31, 1997 at a price of $21.535 United States dollars per share.

On December 31,1997 the Company purchased for cancellation the 1,700,000 Series F and the 500,000 Series G shares outstanding.

The Series H and J, 7.50% Non-Cumulative Perpetual Preferred Shares are redeemable or convertible to Common Shares of the Company at the option of the Company on or after April 1, 1999 or convertible to Common Shares of the Company at the option of the holder on or after September 30, 1999, subject to the requisite statutory approval.

The Series I, 7.50% Non-Cumulative Preferred Shares are redeemable at the option of the Company at any time and are convertible to Common Shares of the Company at the option of the Company on or after April 1, 1999 or convertible to Common Shares of the Company at the option of the holder on or after September 30, 1999, subject to the requisite statutory approval.

The Series K, 7.25% Non-Cumulative Perpetual Preferred Shares are redeemable at the option of the Company on or after September 30, 2002 or convertible to Common Shares of the Company at the option of the Company on or after September 30, 2004 and at the option of the holder on or after March 31, 2005, subject to the requisite statutory approval.

As part of the acquisition of London Insurance Group, 17,995,505 – 5.20% Non-Cumulative Preferred Shares Series L were issued at a value of $25 per share. The Series L shares are redeemable at the option of the Company and are convertible to Series M Preferred Shares at the option of the holder on October 31, 2007 and on October 31, in every fifth year thereafter, subject to the requisite statutory approval.

On acquisition of London Insurance Group, the Company issued 4,772,468 – 5.00% Non-Cumulative Preferred Series N Shares for $25 per share to its parent company Great-West Lifeco Inc. The Series N shares are redeemable at the option of the Company on or after October 31, 2004, and are convertible to Common Shares of the Company at the option of the Company on or after October 31, 2004 and at the option of the holder on or after January 31, 2005, subject to the requisite statutory approval.

As part of the acquisition of London Insurance Group, the Company issued 216,945 common shares to its parent company Great-West Lifeco Inc. for a value of $548 million.

During 1997, the Company issued 154,003 common shares to its parent company Great-West Lifeco Inc. for a consideration of $400 million.

10. Earnings Per Common Share

	1997	1996
Earnings before provision for integration costs	$ 158.63	$ 135.62
Provision for integration costs	(46.40)	–
Earnings per Common Share	$ 112.23	$ 135.62

Earnings per common share is calculated using net income after preferred share dividends and the weighted daily average number of common shares outstanding of 2,047,267 (2,000,000 in 1996).

11. Pension Plans and Other Post-Retirement Benefits

The status of the Company's pension plans is as follows:

	1997	1996
Assets at market related values	$ 1,229	$ 419
Accumulated pension obligations at present value	996	300
Excess of assets over obligations	$ 233	$ 119

The cumulative difference between the amounts expensed and the funding contributions of $36 million ($33 million in 1996) has been reflected in the balance sheet in Other Assets.

In Canada, an actuarial valuation report was prepared as at December 31, 1996. In the United States, an actuarial valuation report was prepared during 1997. Actuarial estimates for 1997 were made based on these reports.

The current period charge for other post retirement benefits provided by the Company was $2 million ($2 million in 1996). On acquisition of London Insurance Group, an accrued benefit liability was assumed for employees of London Insurance Group. When the new CICA requirements on Employees' Future Benefits are issued, harmonization of accounting policies for other post retirement benefits will be implemented.

12. Related Party Transactions

Transactions with related parties consist mainly of the provision of insurance benefits to other companies within the Power Corporation of Canada group of companies. In all cases, transactions are made in the normal course of business and at market prices.

During the year, the Company also (1) provided life insurance and disability insurance products under a distribution agreement with, purchased residential mortgages for the sum of $51 million ($51 million in 1996)

12. Related Party Transactions (cont'd)

from, and provided certain administrative services to, companies within the Power Corporation of Canada group of companies and (2) purchased mortgage loans of $9 million from a segregated fund managed by the Company, in exchange for a promissory note with market terms and conditions as disclosed in note 7.

At December 31, 1997 Other Liabilities of the Company include interest-free subordinated loans totalling $116 million ($116 million at December 31, 1996) from its parent company, Great-West Lifeco Inc. These loans are due on September 30, 2005 and subject to requisite approval may be pre-paid in whole or in part without notice or penalty.

13. Income Taxes

(a) Future income taxes consist of the following temporary differences on:

	1997	1996
Policy liabilities	$ 45	$ 93
Portfolio investments	306	155
Other	(40)	(105)
	$ 311	$ 143

(b) The Company's effective income tax rate is made up as follows:

	1997	1996
Combined basic Canadian federal and provincial tax rate	44.2 %	44.1 %
Increase (decrease) in the income tax rate resulting from:		
Adjustment of future income taxes to a present value basis	–	4.2
Tax exempt dividends	(4.7)	(2.5)
Tax exempt portion of capital gains	(1.1)	(0.5)
Lower effective tax rates on income not subject to tax in Canada	(20.3)	(8.0)
Investment income tax	2.6	1.1
Large corporations tax	1.1	0.5
Miscellaneous	1.0	1.3
Effective income tax rate applicable to current year	22.8 %	40.2 %
Decrease in the income tax rate resulting from prior years' tax adjustments	(13.1)%	(8.2)%
Effective income tax rate	9.7 %	32.0 %

Certain changes made in 1988 to the United States Internal Revenue Code could potentially result in significant increases in income taxes payable by Canadian life insurance companies carrying on business in the United States. The Company has reflected the impact of these changes in its financial statements. In 1997 the Company reduced the provision for income taxes by $32 million due to the resolution of 1990 and 1991 United States' tax issues. 1996 included a provision reduction of $35 million due to the resolution of 1988 and 1989 United States' tax issues. The final resolution of the application of the changes to the Code to income taxes of the Company related to the years 1992-1996 remains outstanding.

14. Off Balance Sheet Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments that are not reported on the balance sheet.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

1997	Notional Amount (1)	Maximum Credit Risk	Future Credit Exposure	Credit Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Futures	$ 25	$ –	$ –	$ –	$ –
Swaps	1,039	24	5	29	6
Options purchased	951	–	5	5	1
	2,015	24	10	34	7
Foreign Exchange Contracts					
Forward contracts	1,003	12	23	35	7
Cross-currency swaps	1,103	34	63	97	19
	2,106	46	86	132	26
Other Derivative Contracts					
Equity contracts	257	4	20	24	3
Forward rate agreements	50	–	–	–	–
	307	4	20	24	3
	$ 4,428	$ 74	$ 116	$ 190	$ 36
Geographic					
Canada	$ 2,913	$ 61	$ 98	$ 159	$ 30
United States	1,515	13	18	31	6
	$ 4,428	$ 74	$ 116	$ 190	$ 36

1996	Notional Amount (1)	Maximum Credit Risk	Future Credit Exposure	Credit Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Swaps	$ 468	$ 18	$ 3	$ 21	$ 4
Options purchased	493	–	3	3	1
	961	18	6	24	5
Foreign Exchange Contracts					
Forward contracts	311	2	4	6	1
Cross–currency swaps	640	44	40	84	17
	951	46	44	90	18
Other Derivative Contracts					
Equity contracts	103	1	6	7	1
	$ 2,015	$ 65	$ 56	$ 121	$ 24
Geographic					
Canada	$ 1,016	$ 57	$ 40	$ 97	$ 19
United States	999	8	16	24	5
	$ 2,015	$ 65	$ 56	$ 121	$ 24

(1) All contracts are over-the-counter traded and are with counterparties that are highly-rated financial institutions.

(b) The following table provides the use, notional amount and estimated fair value of the Company's derivative portfolio at December 31:

14. Off Balance Sheet Financial Instruments (cont'd)

1997

	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes	
	Notional Amount			Total Estimated Fair Value	Notional Amount	Total Estimated Fair Value
	1 Year or Less	1–5 Years	Over 5 Years		2 Years or Less	
Interest Rate Contracts						
Futures	$ 25	$ –	$ –	$ –	$ –	$ –
Swaps	323	560	156	17	–	–
Options purchased	–	951	–	1	–	–
	348	1,511	156	18	–	–
Foreign Exchange Contracts						
Forward contracts	260	–	–	4	743	4
Cross-currency swaps	165	344	594	(43)	–	–
	425	344	594	(39)	743	4
Other Derivative Contracts						
Equity contracts	–	170	87	39	–	–
Forward rate agreements	50	–	–	1	–	–
	50	170	87	40	–	–
	$ 823	$ 2,025	$ 837	$ 19	$ 743	$ 4
Geographic						
Canada	$ 668	$ 723	$ 779	$ 6	$ 743	$ 4
United States	155	1,302	58	13	–	–
	$ 823	$ 2,025	$ 837	$ 19	$ 743	$ 4

1996

	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes	
	Notional Amount			Total Estimated Fair Value	Notional Amount	Total Estimated Fair Value
	1 Year or Less	1–5 Years	Over 5 Years		2 Years or Less	
Interest Rate Contracts						
Swaps	$ 10	$ 365	$ 93	$ 14	$ –	$ –
Options purchased	–	493	–	–	–	–
	10	858	93	14	–	–
Foreign Exchange Contracts						
Forward contracts	–	14	–	1	297	(1)
Cross–currency swaps	26	248	366	6	–	–
	26	262	366	7	297	(1)
Other Derivative Contracts						
Equity contracts	103	–	–	1	–	–
	$ 139	$ 1,120	$ 459	$ 22	$ 297	$ (1)
Geographic						
Canada	$ 36	$ 310	$ 373	$ 26	$ 297	$ (1)
United States	103	810	86	(4)	–	–
	$ 139	$ 1,120	$ 459	$ 22	$ 297	$ (1)

(c) Realized gains (losses) net of tax derived from derivative contracts held for other purposes, associated with the management of the volatility of the foreign currency translation of the United States operations into Canadian dollars was $(15) million ($1 million in 1996).

15. Contingent Liabilities

The Company, and its subsidiaries, London Insurance Group and London Life Insurance Company are subject to individual legal actions arising in the normal course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

In addition, three actions have been commenced against the Company, one in British Columbia, one in Ontario and one in Quebec, related to the availability of policy dividends to pay future premiums. Further, four actions have been commenced against the Company's subsidiary, London Life, two in Ontario, one in British Columbia and one in Quebec, related to the availability of policy dividends to pay future premiums. The courts have not yet considered whether any of these actions is appropriate for certification as a class action proceeding. These actions are in their early stages and accordingly, the Company is not able to make an assessment as to the probable outcome of such litigation.

16. Segmented Information

The Company and its subsidiaries offer an array of insurance, retirement and investment products and services for individuals, businesses and organizations in Canada and the United States. These operations represent one segment of the financial services market.

Year ended December 31, 1997	Operations			Geographic Distribution	
	Participating Policyholders	Shareholders	Total	Canada	United States
(a) Consolidated Operations:					
Income:					
Premium income	$ 906	$ 3,681	$ 4,587	$ 2,568	$ 2,019
Net investment income	596	1,588	2,184	827	1,357
Fee income	(4)	709	705	124	581
Total income	1,498	5,978	7,476	3,519	3,957
Benefits and Expenses:					
Paid or credited to policyholders	1,380	4,343	5,723	2,803	2,920
Commissions	35	261	296	151	145
Operating expenses	39	822	861	296	565
Premium taxes	12	59	71	34	37
Provision for integration costs	82	168	250	250	–
Net operating income before income taxes	(50)	325	275	(15)	290
Income taxes	(32)	59	27	(40)	67
Net income before minority shareholders' interests	(18)	266	248	25	223
Minority shareholders' interest of London Insurance Group	–	2	2	2	–
Net income	$ (18)	$ 264	$ 246	$ 23	$ 223
(b) Identifiable Assets:					
General funds			$ 52,069	$ 31,406	$ 20,663
Segregated funds			22,162	10,963	11,199
Other assets under administration			1,286	1,286	–
Total assets under administration			$ 75,517	$ 43,655	$ 31,862
(c) Liabilities, Capital Stock and Surplus:					
General funds					
Policy liabilities			$ 42,091	$ 24,861	$ 17,230
Other, including capital and surplus			9,978	6,545	3,433
Total general funds			$ 52,069	$ 31,406	$ 20,663

16. Segmented Information (cont'd)

Year ended December 31, 1996

	Operations			Geographic Distribution	
	Participating Policyholders	Shareholders	Total	Canada	United States
(a) Consolidated Operations:					
Income:					
Premium income	$ 797	$ 2,735	$ 3,532	$ 1,314	$ 2,218
Net investment income	446	1,535	1,981	708	1,273
Fee income	–	567	567	80	487
Total income	1,243	4,837	6,080	2,102	3,978
Benefits and expenses:					
Paid or credited to policyholders	1,144	3,470	4,614	1,549	3,065
Commissions	21	242	263	111	152
Operating expenses	29	640	669	206	463
Premium taxes	10	58	68	28	40
Net operating income before income taxes	39	427	466	208	258
Income taxes	26	123	149	83	66
Net income	$ 13	$ 304	$ 317	$ 125	$ 192
(b) Identifiable Assets:					
General funds			$ 27,999	$ 8,161	$ 19,838
Segregated funds			12,342	4,899	7,443
Total assets under administration			$ 40,341	$ 13,060	$ 27,281
(c) Liabilities, Capital Stock and Surplus:					
General funds					
Policy liabilities			$ 23,184	$ 6,706	$ 16,478
Other, including capital and surplus			4,815	1,455	3,360
Total general funds			$ 27,999	$ 8,161	$ 19,838

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholders and Directors,
The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 1997 and their change in its consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.

D. E. Morrison

DAVID E. MORRISON

Fellow, Canadian Institute of Actuaries
Actuary, The Great-West Life Assurance Company

Winnipeg, Manitoba
January 28, 1998

AUDITORS' REPORT

To the Policyholders, Shareholders and Directors,
The Great-West Life Assurance Company

We have audited the consolidated balance sheets of The Great-West Life Assurance Company and the statements of segregated funds consolidated assets as at December 31, 1997 and 1996 and the summaries of consolidated operations, the consolidated statements of surplus, the consolidated statements of changes in financial position and the segregated funds consolidated statements of changes in assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 1997 and 1996 and the results of its operations, the changes in its financial position and the changes in net assets of its segregated funds for the years then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Deloitte & Touche

CHARTERED ACCOUNTANTS

Winnipeg, Manitoba
January 28, 1998

SUMMARY OF PARTICIPATING POLICYHOLDER DIVIDEND POLICY

Each holder of a Great-West participating policy benefits from the surplus of the participating account at the date of issue, and throughout the life of the participating policy. This surplus was generated entirely from the net financial results of policies issued on a participating basis, both past and present.

The amount of surplus to be distributed at any time will depend upon the consideration of a number of factors, including the past and anticipated future net income of the participating account, the growth of the participating account and the need to retain surplus to provide capital to support the participating policies, the need to maintain consistency in distribution from one time period to another, and the overall solvency of the Company.

Great-West uses the contribution method of dividend determination for classes of participating policies. Premiums are calculated with assumed levels of investment returns, mortality/morbidity costs and expense loadings. To the extent that emerging experience is better than the levels assumed in the premium calculation for a particular class of policies, a contribution to surplus will be made by that class of policies. Distributable surplus for each class of policies is based upon the application to each policy of dividend calculation factors which reflect the contribution to surplus by that class of policies.

A copy of the full text of the Participating Policyholder Dividend Policy as approved by the Board of Directors is available, on request.

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY

December 31, 1997

Name	Principal Office Address	Carrying Value (2) (000)	Voting Share Ownership (%)
Great-West Life & Annuity Insurance Company(1)	Englewood, Colorado	$ 1,572,690	100
GW Capital Management LLC			
Financial Administrative Services Corporation			
One Corporation			
Great-West Benefit Services Inc.			
Benefits Communication Corporation			
GWL Properties Inc.			
Confed Admin Services, Inc.			
Greenwood Property Corporation			
Orchard Series Fund			
First Great-West Life & Annuity Insurance Company			
Gold Circle Insurance Company	Winnipeg, Manitoba	$ 3,463	100
Place Bonaventure Inc.	Montreal, Quebec	$ 298	100
GWL Investment Management Ltd.	Winnipeg, Manitoba	$ 956	100
GWL Realty Advisors Inc.	Winnipeg, Manitoba	$ (4)	100
London Insurance Group Inc.	Ontario, Canada	$ 2,920,767	100
London Life Insurance Company	Ontario, Canada	$ 524,815	98.2
London Life International Corporation			
The Trust Company of London Life			
London Fund Management Limited			
London Life Financial Corporation			
London Guarantee Insurance Company	Ontario, Canada	$ 72,380	78.5

1) Investments in United States subsidiaries have been translated into Canadian dollars at the December 31, 1997 market rate of $1.43.
2) The carrying value of the shares is shown at the Company's equity interest in the subsidiaries.

The Great-West Life Assurance Company is the largest provider of individual life and group life and health insurance plans in Canada. Great-West Life operates in Canada, both directly and indirectly through its subsidiary London Life Insurance Company ("London Life"), and operates in the United States primarily through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company ("GWL&A"). Great-West Life is controlled by Great-West Lifeco Inc., a holding company which owns approximately 99.5% of the voting interest in Great-West Life. Lifeco currently has no other holdings, and carries on no unrelated business or activity. Lifeco is controlled by Power Financial Corporation, which controls, directly or indirectly, approximately 81.18% of Lifeco's outstanding common shares representing approximately 64.99% of the voting interest in Lifeco.

Great-West Life believes that active boards and board committees are the cornerstone of sound corporate governance, and offers the following comments with respect to its governance practices.

Board and Board Committees

The Board of Great-West Life is comprised of 21 Directors, and there are seven Committees of the Board. A total of 58 Board and Board Committee meetings are scheduled for 1998. The mandate of the Board is to supervise the management of the business and affairs of Great-West Life. The business of Great-West Life is carried on by three separate organizations, based respectively in Winnipeg, Manitoba, and London, Ontario for the Canadian operations, and in Denver, Colorado, for the U.S. operations.

The management of the organizations is supervised by different committees of their respective Boards of Directors. The affairs of Great-West Life globally are supervised by the Board as a whole.

The mandates of the various Committees are as follows:

- With regard to the Canadian operations, the *Canadian Executive Committees* of Great-West Life and London Life exercise between meetings of their respective Boards all the powers of the Boards except those powers which by law cannot be delegated to an executive committee. Their mandates are to supervise the management of the business and affairs of the Canadian operations and the Executive Committees appoint senior officers, review their performance and determine their compensation. Ten meetings of each Canadian Executive Committee are scheduled for 1998.
- The mandates of the *Canadian Investment and Credit Committees* are to review the investment of funds which support Great-West Life's and London Life's business in Canada and to ensure that Great-West Life and London Life adhere to the investment and lending policies, standards and procedures established in Canada, pursuant to their governing statute, the *Insurance Companies Act*. Ten meetings of each of these Committees are scheduled for 1998.
- With regard to the U.S. operations, where most of the business is carried on through GWL&A, the Board of GWL&A supervises the business and affairs of GWL&A. The *Executive Committee* of GWL&A and the *U.S. Executive Committee* of Great-West Life exercise between meetings of the Boards all the powers of the respective Boards except those powers which by law cannot be delegated to an executive committee. Their mandate is to supervise the management of the business and affairs of the U.S. operations and the Executive Committees appoint senior officers, review their performance and determine their compensation. Ten meetings are scheduled for 1998.
- The mandates of the *Investment and Credit Committee* of GWL&A and of the *U.S. Investment and Credit Committee* of Great-West Life are to review the investment of funds which support GWL&A's business and Great-West Life's business respectively in the United States and to ensure that the companies adhere to the investment and lending policies, standards and procedures established in the United States, pursuant to the companies' governing statutes. Ten meetings are scheduled for 1998.
- The primary mandates of the *Conduct Review Committees* of Great-West Life and London Life are to establish procedures for the review of transactions with "related parties" as that term is used in the *Insurance Companies Act*, to review proposed related party transactions, and to approve such related party

transactions as they deem appropriate. The Committees also monitor certain corporate policies, including procedures with respect to conflicts of interest and privacy guidelines. Four meetings of each of the Conduct Review Committee are scheduled for 1998.

- The primary mandates of the *Audit Committees* of Great-West Life and London Life are to review the quarterly and annual financial statements, public disclosure documents containing financial information, and reports to be filed with regulatory authorities in connection with the financial condition of Great-West Life and London Life; to review and monitor the role of the external auditors; and to ensure that appropriate internal control procedures are in place. Four meetings each of the Audit Committees are scheduled for 1998. With regard to the U.S. operations, the Audit Committee of GWL&A fulfils similar functions with respect to GWL&A. Two of the members of the Great-West Life Audit Committee are also members of the GWL&A Audit Committee and all Audit Committees have the same Chairman.
- The mandate of the *Great-West Life Corporate Management Committee* is to review the management of matters relating to corporate organization, capital structure and overall adequacy of capital. Four meetings of the Corporate Management Committee are scheduled for 1998.

Board and Board Committee Composition

The composition of the Board of Great-West Life and of the Committees of the Board satisfy the requirements of the *Insurance Companies Act*, including those relating to the number of directors who are "affiliated" and "unaffiliated", the number who are "shareholder" and "policyholder" directors (as all of those terms are used in the *Insurance Companies Act* and Regulations), and the number who are employees and Canadian residents.

A majority of the 21 Directors on the Board of Great-West Life are considered to be "unrelated" to Great-West Life. In addition, a number of Directors are free from any interests in, or relationships with, either Great-West Life or its controlling shareholder.

There is a majority of Directors unrelated to Great-West Life on all Committees of the Board, and the Audit and Conduct Review Committees are comprised entirely of non-management Directors. The Chairman of the Board and the Chairmen of the Board Committees are all non-management Directors.

Board Operation

The Chairman's responsibility towards the efficient operation of the Board includes the recommendation, after consultation, of appropriate candidates for nomination to the Board, as well as recommendations concerning Directors' compensation and any change that would improve the workings of the Board.

Committees may, at the expense of Great-West Life, retain such professional advisors as the Committees deem appropriate for purposes of carrying out their duties and responsibilities.

Management of each of the Canadian and U.S. operations is expected to develop strategic plans for their respective operations. The Executive Committees are involved on an ongoing basis in reviewing and approving the strategic plans, as well as the annual business plans incorporating business objectives and key results for which management is responsible every year. The strategic plans and annual business plans are submitted to the Boards for ratification. Management is expected to implement the plans, achieve the objectives and results, and to report regularly to the Board and the Executive Committee on their progress.

Shareholder Matters

In addition to the public disclosure documents which Great-West Life is required to produce by various regulatory authorities, Great-West Life communicates with shareholders through quarterly reports, the annual report and press releases when appropriate. Great-West Life maintains a toll-free service line to handle requests for information and complaints. Every shareholder inquiry receives a prompt response from an appropriate officer of Great-West Life.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

James W. Burns, O.C. ③④⑤⑥⑦
Chairman of the Board of the Company
Deputy Chairman,
Power Corporation of Canada

Orest T. Dackow ③④⑤⑥⑦
President and Chief Executive Officer
Great-West Lifeco Inc.

André Desmarais ①
President and Co-Chief Executive Officer,
Power Corporation of Canada
Deputy Chairman,
Power Financial Corporation
Chairman,
Power Corporation (Asia) Limited

Paul Desmarais, P.C., C.C.
Chairman of the Executive Committee
Power Corporation of Canada

Paul Desmarais, Jr. ③④⑤⑥⑦
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Chairman, Power Financial Corporation

Robert G. Graham ③④⑤⑥
Company Director

Robert Gratton ③④⑤⑥⑦
President and Chief Executive Officer,
Power Financial Corporation

Charles H. Hollenberg, M.D., O.C. ②③⑦
President, Ontario Cancer Treatment &
Research Foundation

Kevin P. Kavanagh ②③④⑦
Company Director
Chancellor, Brandon University

J. Blair MacAulay ①⑤⑦
Of Counsel to Fraser & Beatty

The Right Honourable
Donald F. Mazankowski, P.C. ③⑤
Company Director
Business Consultant

William T. McCallum ④⑥
President and Chief Executive Officer,
Great-West Life & Annuity Insurance Company
President and Chief Executive Officer,
The Great-West Life Assurance Company – United States Operations

Raymond L. McFeetors ③⑤
President and Chief Executive Officer ,
The Great-West Life Assurance Company
President and Chief Executive Officer,
The Great-West Life Assurance Company – Canadian Operations
President and Chief Executive Officer,
London Life Insurance Company

Randall L. Moffat ①
Chairman and President,
Moffat Communications Limited

Jerry E.A. Nickerson ①⑦
Chairman,
H.B. Nickerson & Sons Limited

The Honourable
P. Michael Pitfield, P.C., Q.C. ④⑥⑦
Vice-Chairman,
Power Corporation of Canada
Member of the Senate of Canada

Michel Plessis-Bélair, F.C.A. ①③④⑤⑥⑦
Vice-Chairman and Chief Financial Officer,
Power Corporation of Canada
Executive Vice-President and
Chief Financial Officer,
Power Financial Corporation

H. Sanford Riley
President and Chief Executive Officer,
Investors Group Inc.

Guy St-Germain, C.M. ②③⑤
President, Placements Laugerma Inc.

Barry C. Steers
Company Director
Past Canadian Ambassador to Japan

Douglas T. Wright, Q.C. ①
Company Director
Past President, University of Waterloo

① *Audit Committee*
② *Conduct Review Committee*
③ *Canadian Executive Committee*
④ *United States Executive Committee*
⑤ *Canadian Investment and Credit Committee*
⑥ *United Sates Investment and Credit Committee*
⑦ *Corporate Management Committee*

EXECUTIVE OFFICERS

Raymond L. McFeetors
President and Chief Executive Officer

CANADIAN OPERATIONS

Raymond L. McFeetors
President and Chief Executive Officer

Denis Devos
Executive Vice-President, Individual Insurance and Investment Products

James R. Grant
Executive Vice-President, Group

Grant F. Johnson
Senior Vice-President,
Individual Distribution

Paul I. Kennedy
President, GWL Realty Advisors, Inc.

William W. Lovatt
Senior Vice-President,
Chief Financial Officer

David E. Morrison
Senior Vice-President and Actuary

Peter G. Munro
Executive Vice-President,
Chief Investment Officer

Edward J. Ransby
President, GWL Investment Management Ltd.

Sheila A. Wagar
Senior Vice-President,
General Counsel and Secretary

UNITED STATES OPERATIONS

Great-West Life & Annuity Insurance Company

William T. McCallum
President and Chief Executive Officer

John A. Brown
Senior Vice-President,
Sales, Financial Services

Donna Goldin
Executive Vice-President and
Chief Operating Officer, One Corp.

Mitchell T.G. Graye
Senior Vice-President, Chief Financial Officer

John T. Hughes
Senior Vice-President,
Chief Investment Officer

D. Craig Lennox
Senior Vice-President,
Chief United States Legal Officer

Dennis Low
Executive Vice-President,
Financial Services

Steve H. Miller
Senior Vice-President,
Employee Benefits, Sales

James D. Motz
Executive Vice-President,
Employee Benefits

Martin Rosenbaum
Senior Vice-President,
Employee Benefits, Operations

Douglas L. Wooden
Senior Vice-President,
Financial Services

GLOSSARY OF INSURANCE AND FINANCIAL TERMS

Annuity:
A contract providing income payments at regular (usually monthly) intervals for a specified period. A life annuity provides payments during the lifetime of the annuitant. An annuity certain provides periodic payments over a specified number of years and is not dependent on any person's survival. An annuity consideration is the payment, or series of payments, made to purchase an annuity. An annuity can be purchased as either registered or non-registered funds.

Cash value:
The amount available in cash upon voluntary termination of a policy by its owner before it becomes payable by death or maturity.

Derivative financial instruments:
Financial contracts that derive their value from the value of an underlying asset or index, such as interest rates, exchange rates, equities or commodities. Derivative transactions are conducted in the over-the-counter market directly between two parties or on regulated exchange markets.

Swaps are contractual agreements between two parties to exchange a rate of return on one investment for the rate of return on another investment such as a floating rate of interest for a fixed rate of interest. For cross currency swaps, floating interest payments of one currency are exchanged for floating interest payments in a different currency. Equity index swaps are contracts to pay or receive cash flows based on the increase or decrease in the underlying index.

Options convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period. For options purchased, a premium or fee is paid for the right to exercise the option.

Forwards and Futures are contracts to either buy or sell a specified currency or financial instrument at a specified price and date in the future. Forward contracts are customized and transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Notional Amount is the face or principal value upon which the performance of a derivative contract is based. In general, notional values are not paid or received.

Maximum Credit Risk is the current replacement cost of all outstanding derivative contracts with a positive (receivable by the company) value.

Future Credit Exposure represents the potential for future changes in value based upon a formula prescribed by the Superintendent of Financial Institutions Canada.

Credit Risk Equivalent represents the total of maximum credit risk and future credit exposure.

Risk Weighted Balance represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty on a basis prescribed by the Superintendent of Financial Institutions Canada.

Total Estimated Fair Value is the net of contracts in a receivable position (maximum credit risk) and those in a payable position.

Disability insurance (DI):
A type of health insurance designed to compensate insured people for a portion of the income they lose because of a disabling injury or illness. Generally, benefits for disability insurance are in the form of monthly payments. Individual DI policies can be cancellable, where the insurer can terminate the policy at any time by providing written notice and refunding any advance premiums; or non-cancellable, where the insurer must renew the policy until the insured reaches a certain age, and cannot increase premiums.

Employee Benefits Division:
A business unit of Great-West Life & Annuity Insurance Company, Great-West Life's U.S. subsidiary. Employee Benefits markets life, health and disability insurance and 401(k) products on a group basis to corporations and associations.

Experience Refund:
The portion of a group insurance premium that is returned to a group policyholder whose claims experience is better than had been expected when the premium was calculated.

Financial Services Division:
A business unit of Great-West Life & Annuity Insurance Company, Great-West Life's U.S. subsidiary. Financial Services markets accumulation and payout annuities for employees in the public/non-profit sector and life insurance products to individuals.

Group Insurance Operations:
A business unit of Great-West Life in Canada, that markets life, health and disability insurance products for group clients.

HMO:
Health Maintenance Organization. A prepaid group health plan available in the U.S., that provides a range of services in return for fixed monthly premiums.

Individual Operations:
A business unit of Great-West Life in Canada that markets life and disability insurance products for individual clients.

Life income funds (LIFs):
Plans which provide flexible options for receiving income from a company pension plan.

Life insurance in force (face amount):
The amount stated as payable at the death of the insured or at the maturity of the policy.

Managed care:
A method of delivering, supervising and co-ordinating health care, often through HMOs and other networks of doctors and hospitals.

Minimum Continuing Capital and Surplus Requirement (MCCSR):
A formula to determine the adequacy of an insurance company's capital, specified by the Office of the Superintendent of Financial Institutions Canada.

Morbidity rate:
The likelihood that a person of a given age will suffer an illness or disability. The premium that a person pays for health insurance is based in part on the morbidity rate for that person's age group.

Mortality rate:
The frequency with which death occurs among a defined group of people. The premium that a person pays for life insurance is based in part on the mortality rate for that person's age group.

New annualized premium:
A measure of new sales, equal to the full first year premium on all sales made during the year.

Non-participating life insurance:
Life insurance issued on which policyholders do not share in any surplus earnings distributed by the company. No policy dividends are payable. The premium is based on an estimate of future costs and investment earnings very close to what the company feels most likely to occur, with a margin for contingencies and profit.

OSFI:
Office of the Superintendent of Financial Institutions Canada. The federal agency responsible for regulating and supervising banks, insurance, trust, loan and investment companies and co-operative credit associations that are licensed or registered by the federal government.

Participating life insurance:
Life insurance on which policyowners share in the surplus earnings attributable to the participating business. Dividends can be left on deposit in the policy as part of the cash value or can be used to purchase additional coverage, pay premiums or make loan payments.

Persistency:
A measure of how long a policy or block of policies remains in force.

Point-of-Service (POS) plan:
A comprehensive managed care plan that directs patient care through primary care physicians who serve as gatekeepers and generally refer patients to contracted providers. The plan uses a nationwide network of hospitals and physicians, enhanced utilization management program, and plan design to control costs and promote quality care.

Policy reserves:
Amounts set aside today, which when combined with future premiums and investment income, will provide for future claims and expenses on those claims.

Policyholder dividend:
A refund to the policyowner each year of a portion of the premium based on the company's experienced and anticipated costs. Policy dividends are not guaranteed but depend on mortality experience, investment earnings and other factors and may be increased or decreased at the discretion of the company.

Policyowner surplus:
The amount of a participating policyowner's assets remaining after all the liabilities have been deducted; the equivalent of shareholder retained earnings for participating policyowners.

Preferred Provider Organization (PPO) plan:
A comprehensive managed care plan in the U.S. that integrates sophisticated cost and quality controls into a fee-for-service plan. Wholesale reimbursement arrangements are negotiated with providers in exchange for redirected patient volume. The plan uses a nationwide network of hospitals and physicians, comprehensive utilization management and an open-ended plan design that offers both savings and flexibility.

Premium income:
The income from sales of insurance policies and retirement savings and income products.

RRIF:
Registered Retirement Income Funds. Savings plans which can be purchased using RRSP funds and pay out as long as the fund balance supports the payments. RRIF payments are taxable while the remaining funds are tax sheltered.

Reinsurance contracts:
These contracts are legal agreements in which an insurer (cedant) transfers certain risks on insurance policies to another insurance company (the reinsurer).

Retirement & Investment Services:
A business unit of Great-West in Canada, that markets accumulation and payout annuity products for group and individual clients.

RRSP:
Registered Retirement Savings Plan. A plan enabling Canadian citizens to establish tax-sheltered accounts to accumulate money toward retirement. Income taxes on contributions and earnings are deferred until the funds are withdrawn.

Section 401(k) plan:
In the United States, a qualified cash or deferred profit sharing or stock bonus plan which allows participants to decide how much of their compensation is deferred. Participant contributions are not taxable until the funds are withdrawn, and sponsor contributions as well as earnings are also tax-deferred to the participant.

Section 403(b) plan, Section 457 plan:
In the United States, a type of employee retirement plan established by certain tax-exempt organizations.

Segregated funds:
Investment funds managed separately from an insurance company's general funds, on behalf of clients. Unlike mutual funds, the principal invested is guaranteed in the event of the death of the investor.

Term life insurance:
Insurance which provides protection for a specific length of time, such as one, five, 10 or 20 years. Most plans allow the policyowner to renew for another term or convert the policy to whole life insurance. The cost of term insurance increases as the policyowner ages. Term insurance does not generally have a cash value.

Whole life insurance:
Insurance which protects the policyowner throughout his or her lifetime, providing death benefits and building cash value. The policyowner may borrow funds against the value of the policy. The premium paying period may vary, e.g., payments may end after 20 years or at age 65. The cash value continues to build after premiums are fully paid. Also called traditional or permanent insurance.

Universal life insurance:
A whole life insurance product in which the mortality, investment and expense factors used to calculate premium rates and cash values are stated separately in the policy. Expense charges are deducted from the premium, and the balance is credited to the policy's cash value. Each month, the insurer deducts mortality costs from the cash value and credits the remainder of the cash value with interest. The policyowner can specify the premium amount, and change the death benefit after the policy has been issued, subject to restrictions established by the company.

SHAREHOLDER INFORMATION

Canadian Operations
100 Osborne Street North, Winnipeg, MB R3C 3A5

United States Operations
8505-8515 East Orchard Road, Englewood, CO 80111

Stock Exchange Listings (symbol: GWL.PR.L)
Toronto Stock Exchange
Montreal Stock Exchange
Winnipeg Stock Exchange
Only the Preferred Shares Series L are listed on the stock exchanges.

Transfer Agent and Registrar
Montreal Trust Company of Canada

411-7th Avenue, Calgary, Alberta T2P 1E7

1800 McGill College Avenue, Montréal, Québec H3A 3K9

151 Front Street W., 8th Floor, Toronto, Ontario M5J 2N1

510 Burrard Street, Vancouver, British Columbia V7C 3B9

200 Portage Avenue, Mezzanine Level, Winnipeg, Manitoba R3C 3X2

Dividend Record Dates
Common Shares:
Between the 13th and 17th of February, May, August and November
Preferred Shares Series H,I,J,K:
Between the 14th and 17th of March, June, September and December
Preferred Shares Series L,N:
Between the 14th and 17th of January, April, July and October

Dividend Payment Day
Common Shares:
Usually the first day of March, June, September and December
Preferred Shares Series H,I,J,K:
Usually the last day of each quarter
Preferred Shares Series L,N:
On the last day of January, April, July and October

Annual General Meeting
April 23, 1998 at 11:00 a.m. at a location in Winnipeg
as specified in the notice of meeting.

Inquiries
For financial information about Great-West Life, please contact
Canadian Operations: Chief Financial Officer (204) 946-7341
United States Operations: Chief Financial Officer (303) 689-6770

For copies of the Annual or Quarterly Reports, contact the Secretary's Department (204) 946-8682.

Visit our web site: www.gwl.ca

THE

Great-West Life

ASSURANCE COMPANY

London Life

Great-West

LIFE & ANNUITY INSURANCE COMPANY

Members of the Power Financial Corporation group of companies

E987 (97 Life)

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